

**THE BANK OF AZAD JAMMU AND KASHMIR**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED December 31, 2019**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BANK OF AZAD JAMMU AND KASHMIR**

### **Opinion**

We have audited the financial statements of the Bank of Azad Jammu and Kashmir (the Bank), which comprise statement of financial position as at December 31, 2019, and profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Bank of Azad Jammu and Kashmir Act, 2005 (the Act) and its Bye-Laws 2007 (the Bye-Laws).

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of financial statements in Pakistan and we have fulfilled our other responsibilities in accordance with the requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Information other than the Financial Statements and Auditor's report thereon**

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is

a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Act and the Bye-Laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intend to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditor's report is Shahzad Ali.

  
**Chartered Accountants**

Islamabad

Date: 29 JUL 2020



**THE BANK OF AZAD JAMMU AND KASHMIR**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2019**

**ASSETS**

Cash and balances with treasury banks  
Balances with other banks  
Lendings to financial institutions  
Investments  
Advances  
Fixed assets  
Intangible assets  
Deferred tax assets  
Other assets

2019 2018  
Note ----- Rupees in '000-----

|    |                   |                   |
|----|-------------------|-------------------|
| 5  | 3,005,671         | 2,305,587         |
| 6  | 7,308,507         | 7,101,072         |
|    | -                 | -                 |
| 7  | 178,401           | 175,869           |
| 8  | 2,036,826         | 2,028,938         |
| 9  | 238,881           | 130,195           |
|    | -                 | -                 |
| 10 | 22,426            | 20,930            |
| 11 | 775,623           | 648,751           |
|    | <b>13,566,335</b> | <b>12,411,342</b> |

**LIABILITIES**

Bills payable  
Borrowings  
Deposits and other accounts  
Liabilities against right of use assets  
Subordinated debt  
Deferred tax liabilities  
Other liabilities

|    |                   |                   |
|----|-------------------|-------------------|
| 12 | 21,148            | 19,582            |
|    | -                 | -                 |
| 13 | 11,873,535        | 11,063,203        |
| 14 | 122,388           | -                 |
|    | -                 | -                 |
|    | -                 | -                 |
| 15 | 322,201           | 174,969           |
|    | <b>12,339,272</b> | <b>11,257,754</b> |
|    | <b>1,227,063</b>  | <b>1,153,588</b>  |

**NET ASSETS**

**REPRESENTED BY**

Share capital  
Reserves  
Deficit on revaluation of assets  
Unappropriated profit

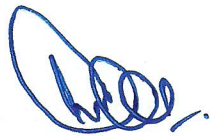
|    |                  |                  |
|----|------------------|------------------|
| 16 | 1,027,192        | 933,811          |
|    | -                | -                |
| 17 | (17,289)         | (18,935)         |
|    | <b>217,161</b>   | <b>238,712</b>   |
|    | <b>1,227,063</b> | <b>1,153,588</b> |


**CONTINGENCIES AND COMMITMENTS**

18


The annexed notes 1 to 39 form an integral part of these financial statements.


28

  
President

  
Chief Financial Officer

  
Director


  
Director


  
Director

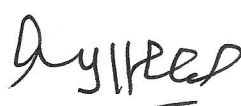
**THE BANK OF AZAD JAMMU AND KASHMIR  
PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED DECEMBER 31, 2019**


|   |      | 2019                     | 2018           |
|---|------|--------------------------|----------------|
|   | Note | -----Rupees in '000----- |                |
| Mark-up / return / interest earned          | 19   | 1,279,455                | 935,967        |
| Mark-up / return / interest expensed        | 20   | <u>702,719</u>           | <u>385,101</u> |
| Net mark-up / interest income               |      | 576,736                  | 550,866        |
| <b>NON MARK-UP / INTEREST INCOME</b>        |      |                          |                |
| Fee and commission income                   | 21   | 16,234                   | 14,999         |
| Dividend income                             |      | 8,107                    | 3,939          |
| Foreign exchange income                     |      | -                        | -              |
| Income from derivatives                     |      | -                        | -              |
| Gain on securities                          |      | -                        | -              |
| Other income                                | 22   | <u>3,051</u>             | <u>2,751</u>   |
| Total non-markup/ interest income           |      | 27,392                   | 21,689         |
| Total income                                |      | <u>604,128</u>           | <u>572,555</u> |
| <b>NON MARK-UP / INTEREST EXPENSES</b>      |      |                          |                |
| Operating expenses                          | 23   | 470,061                  | 421,995        |
| Workers welfare fund                        |      | -                        | -              |
| Other charges                               |      | -                        | -              |
| Total non-markup / interest expenses        |      | 470,061                  | 421,995        |
| Profit before provisions                    |      | <u>134,066</u>           | <u>150,560</u> |
| Provisions and write offs - net             | 24   | 8,665                    | (22,053)       |
| Extra ordinary / unusual items              |      | -                        | -              |
| <b>PROFIT BEFORE TAXATION</b>               |      | <u>125,401</u>           | <u>172,613</u> |
| Taxation                                    | 25   | (53,572)                 | (72,720)       |
| <b>PROFIT AFTER TAXATION</b>                |      | <u>71,830</u>            | <u>99,893</u>  |
| <b>Basic and diluted earnings per share</b> |      |                          |                |
|   | 26   | <u>0.70</u>              | <u>0.97</u>    |

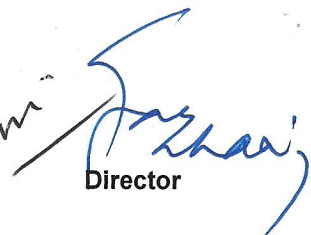
The annexed notes 1 to 39 form an integral part of these financial statements.

  
President

  
Chief Financial Officer

  
Director

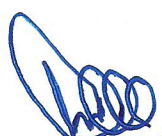



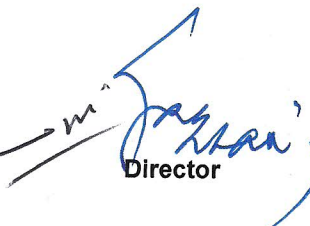
  
Director

  
Director

**THE BANK OF AZAD JAMMU AND KASHMIR  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2019**

|  | 2019<br>-----Rupees in '000----- | 2018<br>-----Rupees in '000----- |
|--|----------------------------------|----------------------------------|
| Profit after taxation for the year   | 71,830                           | 99,893                           |
| <b>OTHER COMPREHENSIVE INCOME</b>  |                                  |                                  |
| Items that may be reclassified to profit and loss account<br>in subsequent periods |                                  |                                  |
| Movement in surplus/ (deficit) on revaluation of investments - net                 | 2,532                            | (14,675)                         |
| Related deferred tax (expense)/credit  | (886)                            | 5,136                            |
|  | 1,646                            | (9,539)                          |
| <b>Total comprehensive income</b>  | <b>73,475</b>                    | <b>90,354</b>                    |

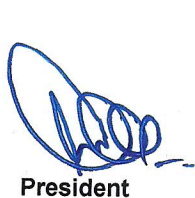
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 President
  Chief Financial Officer
  Director
  Director
  Director

**THE BANK OF AZAD JAMMU AND KASHMIR  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2019**

|  | Share<br>capital | Surplus /<br>(deficit) on<br>revaluation | Unappropriated<br>Profit | Total            |
|--|------------------|--|--------------------------|------------------|
| <b>Rupees in '000</b>  |                  |  |                          |                  |
| <b>Balance as at Januray 01, 2018</b>                                | 848,919          | (9,396)                                  | 223,711                  | 1,063,234        |
| Profit after taxation for the year ended December 31, 2018           | -                | -  | 99,893                   | 99,893           |
| <b>Other comprehensive income</b>                                    |                  |  |                          |                  |
| Deficit on revaluation of available-for-sale securities - net of tax | -                | (9,539)                                  | -                        | (9,539)          |
| <b>Transactions with owners, recorded directly in equity</b>         |                  |  |                          |                  |
| Issue of bonus shares - note 16.5                                    | 84,892           | -  | (84,892)                 | -                |
| <b>Closing balance as at December 31, 2018</b>                       | <b>933,811</b>   | <b>(18,935)</b>                          | <b>238,712</b>           | <b>1,153,588</b> |
| Profit after taxation for the year ended December 31, 2019           | -                | -  | 71,830                   | 71,830           |
| <b>Other comprehensive income</b>                                    |                  |  |                          |                  |
| Deficit on revaluation of available-for-sale securities - net of tax | -                | 1,646                                    | -                        | 1,646            |
| <b>Transactions with owners, recorded directly in equity</b>         |                  |  |                          |                  |
| Issue of bonus shares - note 16.5                                    | 93,381           | -  | (93,381)                 | -                |
| <b>Closing balance as at December 31, 2019</b>                       | <b>1,027,192</b> | <b>(17,289)</b>                          | <b>217,161</b>           | <b>1,227,063</b> |

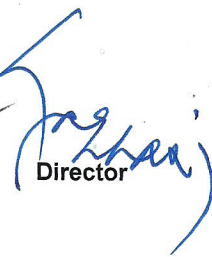
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President

  
Chief Financial Officer

  
Director

  
Director

  
Director



**THE BANK OF AZAD JAMMU AND KASHMIR**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

2019 2018  
 Note -----Rupees in '000-----

**CASH FLOW FROM OPERATING ACTIVITIES**

|  |                  |                  |
|--|------------------|------------------|
| Profit before taxation                         | 125,401          | 172,613          |
| Less: Dividend income                          | (8,107)          | (3,939)          |
|  | <u>117,294</u>   | <u>168,674</u>   |
| Adjustments:                                   |                  |                  |
| Depreciation                                   | 56,269           | 24,789           |
| Provision and write-offs                       | 11,665           | (22,053)         |
| Interest expense on lease liability            | (14,919)         | -                |
| Gain on sale of fixed assets                   | (22)             | (9)              |
|  | <u>52,993</u>    | <u>2,727</u>     |
|  | <u>170,288</u>   | <u>171,401</u>   |
| (Increase)/ decrease in operating assets       |                  |                  |
| Advances                                       | (19,553)         | 385,327          |
| Others assets (excluding advance taxation)     | (140,357)        | (199,819)        |
|  | <u>(159,910)</u> | <u>185,508</u>   |
| Increase/ (decrease) in operating liabilities  |                  |                  |
| Bills payable                                  | 1,566            | (12,226)         |
| Deposits                                       | 810,332          | 1,515,988        |
| Other liabilities (excluding current taxation) | 155,714          | 7,897            |
|  | <u>967,612</u>   | <u>1,511,659</u> |
|  | <u>977,990</u>   | <u>1,868,568</u> |
| interest paid on lease liability               | 14,919           |                  |
| Income tax paid                                | (64,436)         | (81,359)         |
| Net cash generated from operating activities   | <u>928,473</u>   | <u>1,787,209</u> |

**CASH FLOW FROM INVESTING ACTIVITIES**

|  |                    |                    |
|--|--------------------|--------------------|
| Net investments in available-for-sale securities | -                  | (50,000)           |
| Net investments in held-to-maturity securities   | -                  | 199,247            |
| Net proceeds from placements with banks          | (2,983,777)        | (1,528,100)        |
| Dividend income received                         | 8,107              | 3,939              |
| Investments in operating fixed assets            | (13,589)           | (38,019)           |
| Proceeds from sale of fixed assets               | 22                 | 104                |
| Net cash generated from investing activities     | <u>(2,989,237)</u> | <u>(1,412,829)</u> |

**CASH FLOW FROM FINANCING ACTIVITIES**

|  |                 |          |
|--|-----------------|----------|
| Issue of share capital                 | -               | -        |
| Principal paid against lease liability | (15,493)        | -        |
| Dividend paid                          | -               | -        |
| Net cash used in financing activities  | <u>(15,493)</u> | <u>-</u> |

|  |                  |                  |
|--|------------------|------------------|
| decrease in cash and cash equivalents              | (2,076,258)      | 374,380          |
| Cash and cash equivalents at beginning of the year | 3,921,559        | 3,547,179        |
| Cash and cash equivalents at end of the year       | <u>1,845,301</u> | <u>3,921,559</u> |


27

The annexed notes 1 to 39 form an integral part of these financial statements.

  
 President

  
 Chief Financial Officer

  
 Director

  
 Director

  
 Director

**THE BANK OF AZAD JAMMU AND KASHMIR  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

**1. STATUS AND NATURE OF BUSINESS**

The Bank of Azad Jammu and Kashmir (the Bank) a public unlisted Bank was incorporated in 2006 under the Bank of Azad Jammu and Kashmir Act, 2005 (the Act) and is principally engaged in commercial banking and related services as a non-scheduled bank in Azad Jammu and Kashmir State. The registered office of the Bank is situated at Bank Square, Chatter, Muzaffarabad, Azad Jammu and Kashmir. The Government of Azad Jammu and Kashmir holds directly and indirectly Bank's entire share capital.

The Bank has 70 branches (2018: 70 branches) in Azad Jammu and Kashmir.

**2. BASIS OF PRESENTATION**

These financial statements have been presented in accordance with the requirements of format prescribed by the State Bank of Pakistan's BPRD Circular No 02 dated January 25, 2018, the Act and its Bye-Laws 2007 (the Bye-Laws).

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Pak Rupee, which is the Bank's functional and presentation currency. Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.

**2.1 STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with the requirements of the Act, its bye laws and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as applicable for banking companies in Pakistan, Provisions of and directives issued under the Banking Companies Ordinance, 1962 and the Act and Directive issued by the State Bank of Pakistan (SBP).

Where the requirements of the Banking Companies Ordinance, 1962, or the directives issued by the SBP differ with the requirements of IFRS, the requirements of the Banking Companies Ordinance and the said directives shall prevail.

SBP has deferred the applicability of International Accounting Standard 40, 'Investment Property' for Banking Companies through BSD Circular Letter No. 10 dated August 26, 2002. Further, according to the notification of SECP dated April 28, 2008, the IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.

The SECP, through SRO 220(I)/2019 dated February 14, 2019, has notified that IFRS 9, Financial Instruments, is applicable for accounting periods ending on or after June 30, 2019. However, based on the guidance received from the SBP, the requirements of IFRS 9 have not been considered. However, bank is required to submit their pro-forma financial statements based on IFRS-9 to SBP.

The SECP vide SRO 56 (1) / 2016 dated January 28, 2016, has notified that the requirements of IFRS 10 (Consolidated Financial Statements) and section 228 of the Companies Act, 2017 will not be applicable with respect to the investment in mutual funds established under trust structure.

## 2.2 New accounting standards / amendments and IFRS interpretations that are effective for the year ended December 31, 2019

The following standards, amendments and interpretations are effective for the year ended December 31, 2019.

|   | Effective from<br>accounting<br>period beginning |
|---|--|
| - IFRS 16 'Leases': This standard will supersede IAS 17 'Leases', IFRIC 4, SIC 15 and SIC 27 upon its effective date. ( Note 4.1) | January 01, 2019                                 |
| - IFRS 15 'Revenue': This standard will supersede IAS 11 'Construction Contracts' , IAS 18 'Revenue' and related interpretations. | January 01, 2019                                 |

Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to customers. The adoption of IFRS 15 does not have any material impact on the financial statements of the Bank.

Other standards, interpretations and the amendments that are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements are given below :

|  | Effective from<br>accounting<br>period beginning<br>on or after |
|--|---|
| - Amendments to IAS 19 'Employee Benefits' - Amendments regarding plan amendments, curtailments or settlements.  | January 01, 2019  |
| - Amendments to IAS 28 'Investments in Associates and Joint Ventures' - Amendments regarding long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.                              | January 01, 2019  |
| - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 issued in the Annual Improvement Cycle 2015-2017  | January 01, 2019  |
| - IFRIC 23 'Uncertainty over Income Tax Treatments': Clarifies the accounting treatment in relation to determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'. | January 01, 2019  |

Certain annual improvements have also been made to a number of IFRSs



## **New accounting standards / amendments and IFRS interpretations that are not yet effective**

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and amendments are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain additional disclosures:

|  | <b>Effective from accounting period beginning on or after</b> |
|--|---|
| - Amendments to IFRS 3 'Business Combinations' - Amendments regarding the definition of business   | January 01, 2020  |
| - Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' - Amendments regarding the definition of material | January 01, 2020  |
| - IFRS 9 Financial Instruments   | January 01, 2021  |

As per the State Bank of Pakistan's BPRD circular letter No. 4 dated October 23, 2019 the applicability of IFRS 9 to banks in Pakistan has been deferred to accounting periods beginning on or after January 01, 2021

**2.2.1** Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 17 – Insurance Contracts

## **2.3 Use of critical accounting estimates and judgments**

The preparation financial statements in conformity with approved accounting standards as applicable in Pakistan requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The Bank uses estimates and assumptions concerning the future. The resulting accounting estimate will, by definition, seldom equal the related actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are as follow:

- i) Classification of investment.
- ii) Provision against investments and non performing advances , depreciation of operating fixed assets
- iii) Valuation and impairment of available for sale securities
- iv) Useful life of property and equipment and valuation of right of use asset and lease liability
- v) Taxation

## **3 BASIS OF MEASUREMENT**

### **3.1 Accounting convention**

These financial statements have been prepared under the historical cost convention as modified for certain investments which are carried at fair values.



#### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as disclosed in note 4.1 below.

##### 4.1 Change in accounting policy

In current year, IFRS 16, Leases, became applicable to the Bank. IFRS 16 replaces existing guidance on accounting for leases, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases - Incentives', and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 introduces an on-balance sheet lease accounting model for leases entered into by the lessee. A lessee recognizes a right-of use asset representing its right of using the underlying asset and a corresponding lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as either finance or operating leases.

The Bank has adopted IFRS 16 from January 1, 2019, and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. Any adjustments to the carrying amounts of financial and operating leases at the date of transition were recognized in the opening retained earnings of the current period. Accordingly, the information presented for 2018 does not reflect the requirements of IFRS 16 and therefore is not comparable to the information presented for 2019 under IFRS 16. The comparative period notes disclosures repeat those disclosures made in the prior year.

The Bank has recognised liabilities in respect of leases which had previously been classified as operating leases under IAS 17, Leases. These liabilities are measured as the present value of the remaining lease payments, discounted using the Bank's incremental weighted average borrowing rate of 11.84% per annum as at January 1, 2019.

On adoption of IFRS 16, the associated right-of-use assets were initially measured at the amount equal to the lease liability, adjusted by the amount of prepaid lease payments recognised in the statement of financial position immediately before the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The effect of this change in accounting policy, which is applied with retrospective effect, is as follows:

|   | December<br>31, 2019     | January<br>01, 2019 |
|---|--------------------------|---------------------|
|   | -----Rupees in '000----- |                     |
| Total lease liability   | <u>122,388</u>           | <u>123,137</u>      |
| The recognised right-of-use assets relate to the following type of asset: |                          |                     |
| Property  | <u>121,102</u>           | <u>136,622</u>      |

The effect of this change in accounting policy is as follows:

##### Impact on Statement of Financial Position

|   |                |           |
|---|----------------|-----------|
| Increase in fixed assets - right-of-use assets                                    | 121,102        | 136,622   |
| Decrease in other assets - advances, deposits, advance rent and other prepayments | (10,498)       | (13,485)  |
| Increase in other assets - advance taxation                                       | 4,124          | -         |
| Increase in total assets  | 114,728        | 123,137   |
| Increase in other liabilities - lease liability against right of use asset        | (122,388)      | (123,137) |
| decrease in net assets  | <u>(7,660)</u> | <u>-</u>  |

**For the year  
ended  
December 31,  
Rupees in '000'**

**Impact on Profit and loss account**

|   |          |
|---|----------|
| Increase in mark-up expense - lease liability against right of use assets | (14,919) |
| Decrease / (increase) in administrative expenses:                         |          |
| Rent expense  | 33,400   |
| Depreciation on right of use asset  | (30,265) |
| Decrease in profit after tax  | (11,784) |
| Decrease in tax   | 4,124    |
| Decrease in profit after tax  | (7,660)  |

Earnings per share for the year ended December 31, 2019 are Rs 0.08 lower as a result of the adoption of IFRS 16.

**4.2 Cash and cash equivalents**

Cash and cash equivalents comprise of cash and balances with treasury banks, balances with other banks, call lendings and placements with financial institutions having maturities of three months or less.

**4.3 Investments**

Investments are classified as follows:

**Held for trading**

These are securities included in a portfolio in which a pattern of short-term trading exists or which are acquired for generating a profit from short-term fluctuations in market prices or interest rate movements.

**Held to maturity**

These are securities with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold till maturity.

**Available for sale**

These are investments, other than investments in subsidiaries, associates and joint ventures, that do not fall under the held for trading or held-to-maturity categories.

**4.3.1 Initial measurement**

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. The trade date is the date on which the Bank commits to purchase or sell the investment.

In the case of investments classified as held-for-trading, transaction costs are expensed through the profit and loss account. Transaction costs associated with investments other than those classified as held-for-trading are included in the cost of the investments.

#### **4.3.2 Subsequent measurement**

##### **Held-for-trading**

Investments classified as held-for-trading are subsequently measured at fair value. Any unrealised surplus / deficit arising on revaluation is taken to the profit and loss account.

##### **Held-to-maturity**

Investments classified as held-to-maturity are subsequently measured at amortised cost using the effective interest rate method, less any impairment recognised to reflect irrecoverable amounts.

##### **Available-for-sale**

Listed securities if any, are classified as available-for-sale are subsequently measured at fair value. Any unrealised surplus / deficit arising on revaluation is recorded in the surplus / deficit on revaluation of securities account (shown as part of equity in statement of financial position) and is taken to the profit and loss account either when realised upon disposal or when the investment is considered to be impaired.

Unlisted equity securities, if any are carried at the lower of cost and break-up value. The break-up value is calculated with reference to the net assets of the investee Bank as per its latest available audited financial statements. Other unlisted securities are valued at cost less impairment, if any.

#### **4.4 Advances**

Advances are stated net of provisions for non-performing advances. The Bank reviews its loan portfolio and debt securities classified as investments to assess the amount of non-performing loans and advances and debt securities and provision required there-against. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower, the forced sale value of securities and requirements of the Prudential Regulations are considered. For portfolio impairment provision on consumer advances, the Bank follows the general provision requirement set out in Prudential Regulations.

The provisions against non-performing advances are charged to the profit and loss account. Advances are written off when there is no realistic prospect of recovery.

#### **4.5 Capital work-in-progress, property and equipment, and depreciation**

##### **Capital work-in-progress**

Capital work in progress is stated at cost.

##### **Tangible assets**

Fixed assets are stated at cost less impairment losses and accumulated depreciation except for freehold land which is not depreciated.

##### **Intangible assets**

Intangible assets are carried at cost less accumulated amortization and impairment losses, if any. Kashmir Council of Government of AJK acquired and donated Core Banking Information System (Helios) to the Bank. This system is currently installed in certain branches. The Bank has initially recorded this system at nominal value, all subsequent maintenance charges are expense out.



## **Depreciation / amortization**

Depreciation / amortization is computed on monthly basis over the estimated useful life of the related assets on monthly basis. The cost of assets is depreciated / amortized on a straight line basis. Depreciation / amortization is charged for the full month of availability for use of an asset while no depreciation / amortization is charged in the month of disposal of an asset. Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized. Gains and losses on disposal of operating fixed assets are taken to the profit and loss account.

In making estimates of the depreciation / amortization, the management uses useful life and residual value which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The useful life and the residual value are reviewed at each financial year end and any change in these estimates in future years might effect the carrying amounts of the respective item of operating fixed assets with the corresponding effect on depreciation / amortization charge.

### **4.6 Right-of-use assets and their related lease liability**

#### **4.6.1 Right of-use assets**

On initial recognition, right-of-use assets are measured at an amount equal to initial lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to be incurred to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

Right-of-use assets are subsequently stated at cost less any accumulated depreciation / accumulated impairment losses and are adjusted for any remeasurement of lease liability. The remeasurement of lease liability will only occur in cases where the terms of the lease are changed during the lease tenure.

Right-of-use assets are depreciated over their expected useful lives using the straight-line method. Depreciation on additions (new leases) is charged from the month in which the leases are entered into. No depreciation is charged in the month in which the leases mature or are terminated.

#### **4.6.2 Lease liability against right-of-use assets**

The lease liabilities are initially measured as the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Bank's incremental borrowing rate.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. The lease liability is also remeasured to reflect any reassessment or change in lease terms. These remeasurements of lease liabilities are recognised as adjustments to the carrying amount of related right-of-use assets after the date of initial recognition.

Each lease payment is allocated between a reduction of the liability and a finance cost. The finance cost is charged to the profit and loss account as markup expense over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### **4.7 Impairment**

The carrying amount of the Bank's assets are reviewed at the reporting date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment loss is recognized as expense in the profit and loss account. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### **4.8 Deposits**

Deposits are initially recorded at the amount of proceeds received. Mark-up accrued on deposits is recognized separately as part of other liabilities and is charged to the profit and loss account on a time proportion basis.



#### **4.9 Taxation**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the profit and loss account, except to the extent that it relates to items recognized directly in other comprehensive income or below equity, in which case it is recognized in other comprehensive income or below equity.

##### **Current**

Provision for current tax is the expected tax payable on the taxable profit for the year using tax rates applicable at the date of statement of financial position and any adjustment to tax payable for previous years.

##### **Deferred**

Deferred tax is provided for by using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the date of statement of financial position. A deferred tax asset is recognized only to the extent that it is probable that the future taxable profit will be available and credits can be utilized. Deferred tax assets are reduced to the extent it is no longer probable that the related tax benefit will be realized. Deferred tax, on revaluation of investments, if any, is recognized as an adjustment to surplus / (deficit) arising on such revaluation.

#### **4.10 Staff retirement benefits**

##### **Gratuity scheme**

The Bank operates funded defined contributory gratuity scheme for all its permanent employees. Contributions are made by the Bank on monthly basis at the rate of one month last drawn basic pay for each completed year of service. However, no contribution will be made for those employees who are on deputation in the Bank or on extraordinary leave. Gratuity for service rendered during any part of the year shall be payable proportionately.

##### **Provident fund**

The Bank operates funded defined contributory provident fund scheme for all its permanent employees. Equal monthly contributions are made by the Bank and the employees at the rate of 8.33% of basic pay.

##### **Leave encashment**

The Bank provides compensated absences to all its employees. Provision for compensated absence is recognized based on the entitlement for leave encashment as per policy of the Bank.

#### **4.11 Revenue recognition**

Mark-up / interest on advances and return on investments is recognized on accrual basis except on classified advances and investments which is recognized on receipt basis. Mark-up / interest on rescheduled / restructured advances and investments is recognized as permitted by the regulations of the SBP, except where in the opinion of the management it would not be prudent to do so.

Fee, commission, etc. are recognized at the time of performance of service.

Dividend income is recognized when the Bank's right to receive the dividend is established.

#### **4.12 Government grant**

Government grant related to assets are reflected in the statement of financial position as deferred government grant which is recognized as income over the useful life of the depreciable assets equivalent to related depreciation charge.

Revenue grants are recognized as income necessary to match these grants with the related expenses incurred.

#### **4.13 Foreign currency transactions**

Transactions in foreign currencies are translated to Pakistan Rupees at the exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange prevailing on the date of the statement of financial position.

#### **4.14 Provisions**

Provisions other than provision on advances are recognized when the Bank has a present legal and constructive obligation arising as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

#### **4.15 Off setting**

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legal enforceable right to set off and the Bank intends either to settle on a net basis, or to realize the assets and settle the liabilities, simultaneously.

#### **4.16 Appropriations subsequent to the date of statement of financial position**

Appropriations subsequent to year end are recognised during the year in which those appropriations are made.

#### **4.17 Segment reporting**

A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment) or in providing product or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's primary format of reporting is based on business segments.

##### **4.17.1 Business segment**

###### **Retail banking**

Retail banking segment provides retail lending and deposits, banking services, trust and estates, investment advice, merchant / commercial / corporate cards and private labels and retail.

###### **Commercial banking**

Commercial banking segment provides services related to project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees and bills of exchange to corporate customers.

###### **Payment and settlement**

Payment and settlement includes income from payments and collections, funds transfer, clearing and settlement.

###### **Agency service**

Agency service include escrow, depository receipts, securities lending (customers) corporate actions and issuing and paying agents.

##### **4.17.2 Geographical segments**

The Bank only operates in Azad Jammu and Kashmir.

#### **4.18 Earning per share**

The Bank presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

**5 CASH AND BALANCES WITH TREASURY BANKS**

|   |                  |                  |
|---|------------------|------------------|
| In hand   |                  |                  |
| Local currency                                  | 120,859          | 118,620          |
| With National Bank of Pakistan in               |                  |                  |
| Local currency current account                  | 25,232           | 30,449           |
| Local currency deposit account - note 5.1       | 99,580           | 95,234           |
| Local currency term deposit accounts - note 5.2 | 2,760,000        | 2,060,000        |
|   | 2,884,812        | 2,185,683        |
| Prize bonds                                     | -                | 1,284            |
|   | <b>3,005,671</b> | <b>2,305,587</b> |

5.1 This represents deposit accounts carrying markup ranging from 11.25% to 11.40% (2018: 8% to 8.5%) per annum.

5.2 This represents term deposits carrying markup rates ranging from 12.25% to 13.9% (2018: 6.15% to 10.05%) per annum with maturities ranging from six months to one year.

**6 BALANCES WITH OTHER BANKS**

|                                      |                  |                  |
|--------------------------------------|------------------|------------------|
| In Pakistan (Azad Jammu and Kashmir) |                  |                  |
| In current account                   | 130,061          | 50,696           |
| In deposit account - note 6.1 & 6.2  | 7,178,446        | 7,050,376        |
|                                      | <b>7,308,507</b> | <b>7,101,072</b> |

6.1 This include deposit accounts carrying markup ranging from 11.25% to 11.40% (2018: 8% to 8.5%) per annum.

6.2 This include term deposits carrying markup at rates ranging between 7.6% to 20% (2018: 6.08% to 19.84%) per annum. Term deposits have maturities ranging from 3 months to 5 years except a term deposit for an amount of Rs. 500 million placed with a bank maturing in 2029.

**7 INVESTMENTS**

**7.1 Investments by type**

| 2019                       |                                |                        |                   | 2018                       |                                |                        |                   |
|----------------------------|--------------------------------|------------------------|-------------------|----------------------------|--------------------------------|------------------------|-------------------|
| Cost/<br>amortised<br>cost | Provision<br>for<br>diminution | Surplus /<br>(deficit) | Carrying<br>value | Cost/<br>amortised<br>cost | Provision<br>for<br>diminution | Surplus /<br>(deficit) | Carrying<br>value |

-----Rupees in '000-----

**Available-for-sale securities**

|   |         |   |          |         |         |   |          |         |
|---|---------|---|----------|---------|---------|---|----------|---------|
| Units of open ended mutual funds - note 7.5 | 205,000 | - | (26,599) | 178,401 | 205,000 | - | (29,131) | 175,869 |
|---|---------|---|----------|---------|---------|---|----------|---------|

**Held-to-maturity securities**

|                                      |        |          |   |   |        |          |   |   |
|--------------------------------------|--------|----------|---|---|--------|----------|---|---|
| Term finance certificates - note 7.4 | 49,940 | (49,940) | - | - | 49,940 | (49,940) | - | - |
|--------------------------------------|--------|----------|---|---|--------|----------|---|---|

**Total Investments**

|         |          |          |         |         |          |          |         |
|---------|----------|----------|---------|---------|----------|----------|---------|
| 254,940 | (49,940) | (26,599) | 178,401 | 254,940 | (49,940) | (29,131) | 175,869 |
|---------|----------|----------|---------|---------|----------|----------|---------|



| 7.2 Investments by segments      | 2019                       |                                |                        |                   | 2018                       |                                |                        |                   |
|----------------------------------|----------------------------|--------------------------------|------------------------|-------------------|----------------------------|--------------------------------|------------------------|-------------------|
|                                  | Cost/<br>amortised<br>cost | Provision<br>for<br>diminution | Surplus /<br>(deficit) | Carrying<br>value | Cost/<br>amortised<br>cost | Provision<br>for<br>diminution | Surplus /<br>(deficit) | Carrying<br>value |
| -----Rupees in '000-----         |                            |                                |                        |                   |                            |                                |                        |                   |
| Units of open ended mutual funds |                            |                                |                        |                   |                            |                                |                        |                   |
| mutual funds - note 7.5          | 205,000                    | -                              | (26,599)               | 178,401           | 205,000                    | -                              | (29,131)               | 175,869           |
| Non Government debt Securities   |                            |                                |                        |                   |                            |                                |                        |                   |
| Unlisted                         |                            |                                |                        |                   |                            |                                |                        |                   |
| Term finance certificate         | 49,940                     | (49,940)                       | -                      | -                 | 49,940                     | (49,940)                       | -                      | -                 |
| <b>Total investments</b>         | <b>254,940</b>             | <b>(49,940)</b>                | <b>(26,599)</b>        | <b>178,401</b>    | <b>254,940</b>             | <b>(49,940)</b>                | <b>(29,131)</b>        | <b>175,869</b>    |

7.3 Particulars of held to maturity investment

| No. of certificates |        | Name of company       | Redeemable value per certificate (Rupees) | 2019           | 2018   | Credit rating |
|---------------------|--------|-----------------------|---|----------------|--------|---------------|
| 2019                | 2018   |                       |   | Rupees in '000 |        |               |
| 10,000              | 10,000 | Pace Pakistan Limited | 4.994                                     | 49,940         | 49,940 | Un-rated      |

Paid up value was Rs. 5,000 per certificate, carrying markup at the rate of KIBOR + 1.5% matured in 2017. Considering the non recovery of the balance, full provision has been made in the financial statements.

| 7.4 Particulars of provision for diminution in value of investments |  | 2019                     | 2018   |
|---|--|--------------------------|--------|
|   |  | -----Rupees in '000----- |        |
| 7.4.1 Opening balance   |  | 49,940                   | 49,940 |
| Charge for the year   |  | -                        | -      |
| Closing Balance   |  | 49,940                   | 49,940 |

7.4.2 Particulars of provision against debt securities  
Category of classification

| Domestic<br>Loss         | 2019   |           | 2018   |           |
|--------------------------|--------|-----------|--------|-----------|
|                          | NPI    | Provision | NPI    | Provision |
| -----Rupees in '000----- |        |           |        |           |
|                          | 49,940 | 49,940    | 49,940 | 49,940    |

7.5 Details regarding Quality of available for sale securities is as follows:

|                                     | 2019         |                       |                               |                            | 2018         |                       |                               |                                |
|-------------------------------------|--------------|-----------------------|-------------------------------|----------------------------|--------------|-----------------------|-------------------------------|--------------------------------|
|                                     | No. of units | Cost (Rupees in '000) | Market value (Rupees in '000) | Market value per unit (Rs) | No. of units | Cost (Rupees in '000) | Market value (Rupees in '000) | Market value per unit (Rupees) |
| Units of open ended mutual funds    |              |                       |                               |                            |              |                       |                               |                                |
| National Investment Unit Trust Fund | 1,313,081    | 100,000               | 83,381                        | 63.50                      | 1,305,437    | 100,000               | 82,751                        | 63.39                          |
| NIT Government Bond Fund            | 3,184,047    | 30,000                | 33,537                        | 10.53                      | 3,184,047    | 30,000                | 32,680                        | 10.26                          |
| NIT Islamic Equity Fund             | 4,329,197    | 50,000                | 37,490                        | 8.66                       | 4,329,197    | 50,000                | 36,019                        | 8.32                           |
| MCB Dynamic Cash Fund               | 213,059      | 25,000                | 23,993                        | 112.65                     | 222,131      | 25,000                | 24,419                        | 109.93                         |
|                                     |              | <b>205,000</b>        | <b>178,401</b>                |                            |              | <b>205,000</b>        | <b>175,869</b>                |                                |



## ADVANCES

|   | Performing |           | Non performing |           | Total     |           |
|---|------------|-----------|----------------|-----------|-----------|-----------|
|   | 2019       | 2018      | 2019           | 2018      | 2019      | 2018      |
| ----- Rupees in '000-----                   |            |           |                |           |           |           |
| Loans, cash credits, running finances, etc. | 1,993,166  | 1,936,543 | 215,620        | 252,690   | 2,208,786 | 2,189,233 |
| Advances - gross                            | 1,993,166  | 1,936,543 | 215,620        | 252,690   | 2,208,786 | 2,189,233 |
| Provision against advances                  |            |           |                |           |           |           |
| - Specific                                  | -          | -         | (130,093)      | (112,203) | (130,093) | (112,203) |
| - General                                   | (41,867)   | (48,092)  | -              | -         | (41,867)  | (48,092)  |
|   | (41,867)   | (48,092)  | (130,093)      | (112,203) | (171,960) | (160,295) |
| Advances - net of provision                 | 1,951,299  | 1,888,451 | 85,527         | 140,487   | 2,036,826 | 2,028,938 |

## 8.1 Particulars of advances (Gross)

In local currency

2019 2018  
Rupees in '000

2,208,786 2,189,233

## 8.2 Advances include Rs. 215,620 thousand (2018: 252,690 thousand) which have been placed under non-performing status as detailed below:-

| Category of classification        | 2019                 |           | 2018                 |           |
|-----------------------------------|----------------------|-----------|----------------------|-----------|
|                                   | Non performing loans | Provision | Non performing loans | Provision |
| ----- Rupees in '000-----         |                      |           |                      |           |
| Domestic                          |                      |           |                      |           |
| Other Assets Especially Mentioned | 4,986                | -         | 37,792               | -         |
| Substandard                       | 23,946               | 3,987     | 43,468               | 8,586     |
| Doubtful                          | 15,681               | 5,092     | 17,936               | 7,706     |
| Loss                              | 171,007              | 121,014   | 153,494              | 95,911    |
| Total                             | 215,620              | 130,093   | 252,690              | 112,203   |

## 8.3 Particulars of provision against advances

|                           | 2019     |         |          | 2018     |         |          |
|---------------------------|----------|---------|----------|----------|---------|----------|
|                           | Specific | General | Total    | Specific | General | Total    |
| ----- Rupees in '000----- |          |         |          |          |         |          |
| Opening balance           | 112,203  | 48,092  | 160,295  | 122,169  | 44,538  | 166,707  |
| Charge for the year       | 48,673   | -       | 48,673   | 21,397   | 3,554   | 24,951   |
| Reversals                 | (30,783) | (6,225) | (37,008) | (31,363) | -       | (31,363) |
|                           | 17,890   | (6,225) | 11,665   | (9,966)  | 3,554   | (6,412)  |
| Closing balance           | 130,093  | 41,867  | 171,960  | 112,203  | 48,092  | 160,295  |

## 8.3.1 Particulars of provision against advances

|                           | 2019     |         |         | 2018     |         |         |
|---------------------------|----------|---------|---------|----------|---------|---------|
|                           | Specific | General | Total   | Specific | General | Total   |
| ----- Rupees in '000----- |          |         |         |          |         |         |
| In local currency         | 130,093  | 41,867  | 171,960 | 112,203  | 48,092  | 160,295 |
|                           | 130,093  | 41,867  | 171,960 | 112,203  | 48,092  | 160,295 |

**8.3.2** The net FSV benefit availed has been decreased by Rs 31.519 million, which has resulted in increased charge for specific provision for the year by Rs 18.010 million. Had the FSV benefit not decreased, before and after tax profit for the year would have been increased by Rs 18.010 million (2018: lower by Rs 7.624 million) and Rs 11.7065 million (2018: (lower by Rs 4.651 million) respectively. Further, at December 31, 2019, cumulative tax benefit availed for Forced Sale Value (FSV) was Rs 5.4 million (2018: Rs 2.97 million) under BSD circular No. 1 of 2011 dated October 21, 2011. Reserves and un-appropriated profit to that extent are not available for distribution by way of cash or stock dividend.

## **9 FIXED ASSETS**

| Note | 2019                     | 2018           |
|------|--------------------------|----------------|
|      | -----Rupees in '000----- |                |
| 9.1  | 932                      | 1,234          |
| 9.2  | 237,949                  | 128,961        |
|      | <u>238,881</u>           | <u>130,195</u> |

### **9.1 Capital work-in-progress**

This represents advance to suppliers in respect of purchase of office equipment, computers and furniture.

|                      | 2019                     | 2018         |
|----------------------|--------------------------|--------------|
|                      | -----Rupees in '000----- |              |
| Advances to supplier | <u>932</u>               | <u>1,234</u> |

9.2 Property and equipment

| 2019                  |                           |                        |                       |                  |           |          |                    |           |
|-----------------------|---------------------------|------------------------|-----------------------|------------------|-----------|----------|--------------------|-----------|
| Freehold land         | Building on freehold land | Leasehold improvements | Furniture and fixture | Office equipment | Computers | Vehicles | Right of Use Asset | Total     |
| -----Rupees '000----- |                           |                        |                       |                  |           |          |                    |           |
| 40,400                | 14,407                    | 48,889                 | 74,523                | 25,001           | 33,218    | 30,130   | 136,622            | 403,190   |
| -                     | (8,243)                   | (26,146)               | (36,805)              | (16,939)         | (25,870)  | (23,604) | -                  | (137,607) |
| 40,400                | 6,164                     | 22,743                 | 37,718                | 8,062            | 7,348     | 6,526    | 136,622            | 265,583   |
|                       |                           |                        |                       |                  |           |          |                    |           |
| 40,400                | 6,164                     | 22,743                 | 37,718                | 8,062            | 7,348     | 6,526    | 136,622            | 265,583   |
| -                     | -                         | 4,790                  | 4,060                 | 3,537            | 1,504     | -        | 14,744             | 28,635    |
| -                     | -                         | -                      | (40)                  | -                | -         | -        | -                  | (40)      |
| -                     | -                         | -                      | 40                    | -                | -         | -        | -                  | 40        |
| -                     | (1,441)                   | (7,403)                | (7,856)               | (3,278)          | (3,280)   | (2,746)  | (30,265)           | (56,269)  |
| 40,400                | 4,723                     | 20,130                 | 33,922                | 8,321            | 5,572     | 3,780    | 121,101            | 237,949   |
|                       |                           |                        |                       |                  |           |          |                    |           |
| 40,400                | 14,407                    | 53,679                 | 78,543                | 28,538           | 34,722    | 30,130   | 151,366            | 431,785   |
| -                     | (9,684)                   | (33,549)               | (44,621)              | (20,217)         | (29,150)  | (26,350) | (30,265)           | (193,836) |
| 40,400                | 4,723                     | 20,130                 | 33,922                | 8,321            | 5,572     | 3,780    | 121,101            | 237,949   |
| 0                     | 10                        | 20                     | 10-20                 | 20               | 20        | 20       |                    |           |
|                       |                           |                        |                       |                  |           |          |                    |           |
| 2018                  |                           |                        |                       |                  |           |          |                    |           |
| Free hold land        | Building on freehold land | Leasehold improvements | Furniture and fixture | Office equipment | Computers | Vehicles | Right of Use Asset | Total     |
| -----Rupees '000----- |                           |                        |                       |                  |           |          |                    |           |
| 40,000                | 14,407                    | 27,382                 | 61,789                | 20,314           | 31,187    | 30,130   | -                  | 225,209   |
| -                     | (6,802)                   | (20,519)               | (31,858)              | (13,742)         | (21,802)  | (20,512) | -                  | (115,235) |
| 40,000                | 7,605                     | 6,863                  | 29,931                | 6,572            | 9,385     | 9,618    | -                  | 109,974   |
|                       |                           |                        |                       |                  |           |          |                    |           |
| 40,000                | 7,605                     | 6,863                  | 29,931                | 6,572            | 9,385     | 9,618    | -                  | 109,974   |
| 400                   | -                         | 21,507                 | 15,246                | 4,687            | 2,031     | -        | -                  | 43,871    |
| -                     | -                         | -                      | (2,512)               | -                | -         | -        | -                  | (2,512)   |
| -                     | -                         | -                      | 2,417                 | -                | -         | -        | -                  | 2,417     |
| -                     | (1,441)                   | (5,627)                | (7,364)               | (3,197)          | (4,068)   | (3,092)  | -                  | (24,789)  |
| 40,400                | 6,164                     | 22,743                 | 37,718                | 8,062            | 7,348     | 6,526    | -                  | 128,961   |
|                       |                           |                        |                       |                  |           |          |                    |           |
| 40,400                | 14,407                    | 48,889                 | 74,523                | 25,001           | 33,218    | 30,130   | -                  | 266,568   |
| -                     | (8,243)                   | (26,146)               | (36,805)              | (16,939)         | (25,870)  | (23,604) | -                  | (137,607) |
| 40,400                | 6,164                     | 22,743                 | 37,718                | 8,062            | 7,348     | 6,526    | -                  | 128,961   |
| 0                     | 10                        | 20                     | 10-20                 | 20               | 20        | 20       |                    |           |



- | Particulars of assets | cost                    | Accumulated depreciation | Book value | Sale proceeds |
|-----------------------|-------------------------|--------------------------|------------|---------------|
|                       | ----- Rupees '000 ----- |                          |            |               |
| <b>2019</b>           |                         |                          |            |               |
| Furniture and fixture | 40                      | 40                       | -          | 22            |
|                       | 40                      | 40                       | -          | 22            |
| <b>2018</b>           |                         |                          |            |               |
| Furniture and fixture | 2,220                   | 2,126                    | 93         | 102           |
| Carpet and blinds     | 292                     | 291                      | 1          | 2             |
|                       | 2,512                   | 2,417                    | 94         | 104           |

**9.5** The cost of fully depreciated fixed assets that are still in the Bank's use is as follows:

|                         | 2019           | 2018          |
|-------------------------|----------------|---------------|
|                         | Rupees in '000 |               |
| Lease hold improvements | 10,386         | 9,016         |
| Furniture and Fixtures  | 17,183         | 11,647        |
| Office Equipments       | 12,764         | 8,116         |
| Computer Equipments     | 20,155         | 15,379        |
| Vehicles                | 17,026         | 15,299        |
|                         | <b>77,514</b>  | <b>59,457</b> |

Deductible temporary differences on

- Deficit on revaluation of investments
- Accelerated tax depreciation
- Provision against non-performing advances

Taxable temporary differences on

- Provision against receivable from Kashmir Council
- Provision against customer claims

| 2019                    |                          |                      |                           |
|-------------------------|--------------------------|----------------------|---------------------------|
| At<br>January 1<br>2019 | Recognised<br>in P&L A/C | Recognised<br>in OCI | At<br>December<br>31 2019 |
| -----Rupees in 000----- |                          |                      |                           |
| 10,196                  | -                        | (886)                | 9,310                     |
| 5,738                   | 2,592                    | -                    | 8,330                     |
| -                       | -                        | -                    | -                         |
| -                       | -                        | -                    | -                         |
| 15,934                  | 2,592                    | (886)                | 17,640                    |
| 1,685                   | -                        | -                    | 1,685                     |
| 3,311                   | (210)                    | -                    | 3,101                     |
| 20,930                  | 2,382                    | (886)                | 22,426                    |

| 2018   |                          |                      |                        |
|--|--------------------------|----------------------|------------------------|
| At January<br>1 2018                               | Recognised<br>in P&L A/C | Recognised in<br>OCI | At December<br>31 2018 |
| -----Rupees in '000-----                           |                          |                      |                        |
| Deductible temporary differences on                |                          |                      |                        |
| - Deficit on revaluation of investments            | 5,060                    | -                    | 5,136                  |
| - Accelerated tax depreciation                     | 4,947                    | 791                  | -                      |
| - Provision against non-performing advances        | -                        | -                    | -                      |
|  | 10,007                   | 791                  | 5,136                  |
|  |                          |                      | 15,934                 |
| 'classified in sub-standard category               |                          |                      |                        |
| Taxable temporary differences on                   |                          |                      |                        |
| -Provision against receivable from Kashmir Council | 1,685                    | -                    | -                      |
| -Provision against customer claims                 | 11,153                   | (7,842)              | -                      |
|  | 22,845                   | (7,051)              | 5,136                  |
|  |                          |                      | 20,930                 |

|        |   | 2019                     | 2018    |
|--------|---|--------------------------|---------|
|        |   | -----Rupees in '000----- |         |
| 11     | OTHER ASSETS  | Note                     |         |
|        | Income/ mark-up accrued in local currency - net of provision  | 11.1, 11.2               | 752,590 |
|        | Advances, deposits, advance rent and other prepayments  |                          | 1,254   |
|        | Advance taxation  |                          | 2,706   |
|        | Branch adjustment account   |                          | 11,180  |
|        | Stationery and stamps in hand   |                          | 1,926   |
|        | Others  |                          | 10,782  |
|        |   |                          | 780,438 |
|        | Less: Provision held against other assets   | 11.3                     | (4,815) |
|        | Other assets (net of provision) - total   |                          | 775,623 |
| 11.1   | This includes an amount of Rs. 1,520 thousand (2018: Rs. 1,874 thousand) on account of interest receivable from a related party.  |                          | 609,382 |
| 11.2   | This balance has been arrived at after adjusting interest in suspense account of Rs. 80,200 thousand (2018: Rs. 64,490 thousand). |                          | 14,803  |
| 11.3   | Provision held against other assets   | Note                     |         |
|        | Receivable from Kashmir Council   | 11.3.1                   | 4,815   |
| 11.3.1 | Movement in provision held against other assets   |                          |         |
|        | Opening balance   |                          | 4,815   |
|        | Closing balance   |                          | 4,815   |
| 12     | BILLS PAYABLE   |                          |         |
|        | In Pakistan   |                          | 21,148  |
|        |   |                          | 19,582  |

### 13 DEPOSITS AND OTHER ACCOUNTS

|                  | 2019                     |                          |                   | 2018                 |                          |                   |
|------------------|--------------------------|--------------------------|-------------------|----------------------|--------------------------|-------------------|
|                  | In local<br>currency     | In foreign<br>currencies | Total             | In local<br>currency | In foreign<br>currencies | Total             |
|                  | -----Rupees in '000----- |                          |                   |                      |                          |                   |
| <b>Customers</b> |                          |                          |                   |                      |                          |                   |
| Current deposits | 2,687,126                | -                        | 2,687,126         | 2,558,831            | -                        | 2,558,831         |
| Savings deposit  | 5,934,385                | -                        | 5,934,385         | 5,553,347            | -                        | 5,553,347         |
| Term deposits    | 3,190,638                | -                        | 3,190,638         | 2,828,559            | -                        | 2,828,559         |
| Others           | 61,386                   | -                        | 61,386            | 122,466              | -                        | 122,466           |
|                  | <u>11,873,535</u>        | <u>-</u>                 | <u>11,873,535</u> | <u>11,063,203</u>    | <u>-</u>                 | <u>11,063,203</u> |

|                                     | 2019                     | 2018              |
|-------------------------------------|--------------------------|-------------------|
|                                     | -----Rupees in '000----- |                   |
| <b>13.1 Composition of deposits</b> |                          |                   |
| - Individuals                       | 7,206,928                | 5,942,651         |
| - Government                        | 4,542,797                | 5,068,975         |
| - Private Sector                    | 123,810                  | 51,577            |
|                                     | <u>11,873,535</u>        | <u>11,063,203</u> |

### 14 LEASE LIABILITIES AGAINST RIGHT OF USE ASSETS

|   | 2019                     | 2018     |
|---|--------------------------|----------|
|   | -----Rupees in '000----- |          |
| Lease liabilities included in the statement of financial position as at December 31, 2019 | 122,388                  | -        |
| of which are:   |                          |          |
| current lease liability   | 11,734                   | -        |
| Non current lease liability   | 110,654                  | -        |
|   | <u>122,388</u>           | <u>-</u> |
| <br>Maturity analysis - contractual undiscounted cashflows                                |                          |          |
| Less than one year  | 26,224                   | -        |
| One to five years   | 119,805                  | -        |
| More than five years  | 39,268                   | -        |
| Total undiscounted lease liabilities as at December 31, 2019                              | <u>185,297</u>           | <u>-</u> |

### 15 OTHER LIABILITIES

|   |                |                |
|---|----------------|----------------|
| Mark-up/ return/ interest payable in local currency - note 15.1 | 219,687        | 82,339         |
| Accrued expenses  | 3,779          | 2,945          |
| Income tax payable  | -              | 8,482          |
| Branch adjustment account                                       | -              | -              |
| Provision for bonus to employees                                | 16,264         | 15,000         |
| Provision against customer claims                               | 8,861          | 9,461          |
| Leave encashment  | 40,800         | 21,000         |
| Education cess  | 6,008          | 6,784          |
| Others  | 26,802         | 28,958         |
|   | <u>322,201</u> | <u>174,969</u> |

- 15.1 It includes an amount of Rs. 83,561 thousand (2018: Rs. 36,363 thousand) on account of interest payable to related parties (Government departments).



## 16 SHARE CAPITAL

### 16.1 Authorized capital

| 2019                 | 2018               |                                | 2019                     | 2018             |
|----------------------|--------------------|--------------------------------|--------------------------|------------------|
| Number of shares     |                    |                                | -----Rupees in '000----- |                  |
| <u>1,000,000,000</u> | <u>200,000,000</u> | Ordinary shares of Rs. 10 each | <u>10,000,000</u>        | <u>2,000,000</u> |

During the year, the Government has enhanced the authorized share capital of the Bank to Rs. 10 billion by amending the Bank of Azad Jammu and Kashmir Act, 2005.

### 16.2 Issued, subscribed and paid up share capital

| 2019               | 2018              |  | 2019                     | 2018           |
|--------------------|-------------------|--|--------------------------|----------------|
| Number of shares   |                   | Ordinary shares                          | -----Rupees in '000----- |                |
| 31,794,261         | 31,794,261        | Fully paid in cash                       | 317,942                  | 317,942        |
| 65,909,800         | 56,571,700        | Issued as bonus shares                   | 659,098                  | 565,717        |
| 5,015,200          | 5,015,200         | Issued for consideration other than cash | 50,152                   | 50,152         |
| <u>102,719,261</u> | <u>93,381,161</u> |  | <u>1,027,192</u>         | <u>933,811</u> |

16.3 The Government of Azad Jammu and Kashmir and Behbood Fund and Group Insurance - Government autonomous body own 100% percent of ordinary shares of the Bank as on December 31, 2018 in proportion of 94% and 6% respectively.

### 16.4 Reconciliation of number of ordinary shares

|  | 2019               | 2018              | 2019                     | 2018           |
|--|--------------------|-------------------|--------------------------|----------------|
|  | Number of shares   |                   | -----Rupees in '000----- |                |
| Shares at the beginning of the year      | 93,381,161         | 84,891,937        | 933,811                  | 848,919        |
| Right shares issued during the year      | -                  | -                 | -                        | -              |
| Bonus shares issued during the year 16.5 | 9,338,113          | 8,489,224         | 93,381                   | 84,892         |
| Shares at the year end                   | <u>102,719,274</u> | <u>93,381,161</u> | <u>1,027,192</u>         | <u>933,811</u> |

16.5 During the year the bank has issued bonus shares 9,338,113 (2018: 8,489,224) amounting to Rs. 93,381 thousand (2018: 84,892 thousand) to its shareholders.

## 17 DEFICIT ON REVALUATION OF ASSETS

Deficit on revaluation of:

- Available for sale securities

| Note | 2019                     | 2018     |
|------|--------------------------|----------|
|      | -----Rupees in '000----- |          |
| 7.1  | (26,599)                 | (29,131) |

Deferred tax on deficit on revaluation of:

- Available for sale securities

|                 |                 |
|-----------------|-----------------|
| 9,310           | 10,196          |
| <u>(17,289)</u> | <u>(18,935)</u> |

## 18 CONTINGENCIES AND COMMITMENTS

|                      |      |                |                |
|----------------------|------|----------------|----------------|
| Guarantees           | 18.1 | 36,076         | 16,779         |
| Commitments          | 18.2 | 336,245        | 298,080        |
| Bills for collection | 18.3 | 9,564          | 52,342         |
|                      |      | <u>381,885</u> | <u>367,201</u> |

|               |   | 2019                     | 2018   |
|---------------|---|--------------------------|--|
|               |   | -----Rupees in '000----- |  |
| <b>18.1</b>   | <b>Guarantees</b>   |                          |  |
|               | Financial guarantees  | <u>36,076</u>            | <u>16,779</u>                                  |
| <b>18.2</b>   | <b>Commitments</b>  |                          |  |
|               | Loan sanctioned but not disbursed   | 20,389                   | 13,501   |
|               | Unavailed running finance   | 315,856                  | 284,579  |
|               | Operating leases  | -                        | 123,734  |
|               | 18.2.1  | <u>336,245</u>           | <u>298,080</u>                                 |
| <b>18.2.1</b> | Due to adoption of IFRS 16 there is no commitment in respect of operating lease.  |                          |  |
| <b>18.3</b>   | <b>Bills for collection</b>   |                          |  |
|               | 18.3.1  | <u>9,564</u>             | <u>52,342</u>                                  |
| <b>18.3.1</b> | Bills for collection represent bills drawn in favour of various financial institutions on behalf of the Bank's customers. These are accepted by the Bank as an agent and the Bank does not carry any credit risk in respect of these bills. |                          |  |
| <b>19</b>     | <b>MARK-UP/ RETURN/ INTEREST EARNED</b>   | <b>Note</b>              | <b>2019</b><br><b>-----Rupees in '000-----</b> |
|               | On:   |                          |  |
|               | a) Loans and advances   | 19.1                     | 282,373  |
|               | b) Investments  |                          | -  |
|               | c) Balances with banks  |                          | 13,230   |
|               |   |                          | <u>997,082</u>                                 |
|               |   |                          | <u>1,279,455</u>                               |
| <b>19.1</b>   | This includes an amount of Rs. 20,831 thousand ( 2018: Rs. 26,363 thousand ) on account of interest earned on advance given to a related party (Government department).   |                          |  |
| <b>20</b>     | <b>MARK-UP/ RETURN/ INTEREST EXPENSED</b>   | <b>Note</b>              | <b>2019</b><br><b>-----Rupees in '000-----</b> |
|               | On:   |                          |  |
|               | Deposits  | 20.1                     | 687,800  |
|               | Lease liability on right of use asset   | 4.1                      | 385,101  |
|               |   |                          | <u>14,919</u>                                  |
|               |   |                          | <u>702,719</u>                                 |
| <b>20.1</b>   | This includes an amount of Rs. 139,411 thousand ( 2018: Rs. 190,322 thousand ) on account of interest expense on deposits received from related parties (Government departments).   |                          |  |
| <b>21</b>     | <b>FEE AND COMMISSION INCOME</b>  | <b>Note</b>              | <b>2019</b><br><b>-----Rupees in '000-----</b> |
|               | Branch banking customer fees  |                          | 1,771  |
|               | Commission on cheques books   |                          | 3,714  |
|               | Credit related fees   |                          | 4,456  |
|               | Commission on guarantees  |                          | 659  |
|               | Commission on remittances   |                          | 435  |
|               | Commission on call deposit  |                          | -  |
|               | Commission on utility bills   |                          | 4,672  |
|               | Postage   |                          | 417  |
|               | Others  |                          | 110  |
|               |   |                          | <u>16,234</u>                                  |
|               |   |                          | <u>14,999</u>                                  |

|   | Note | 2019<br>-----Rupees in '000----- | 2018           |
|---|------|----------------------------------|----------------|
| <b>22 OTHER INCOME</b>                              |      |                                  |                |
| Gain on sale of fixed assets-net                    |      | 22                               | 9              |
| Site visits and fee collection charges              |      | 3,029                            | 2,742          |
|   |      | <u>3,051</u>                     | <u>2,751</u>   |
| <b>23 OPERATING EXPENSES</b>                        |      |                                  |                |
| <b>Total compensation expense</b>                   | 23.1 | <b>285,122</b>                   | <b>244,847</b> |
| <b>Property expense</b>                             |      |                                  |                |
| Rent & taxes  |      | 523                              | 31,544         |
| Insurance   |      | 1,151                            | 2,217          |
| Utilities cost                                      |      | 17,952                           | 14,717         |
| Security (including guards)                         |      | 23,853                           | 23,852         |
| Repair & maintenance (including janitorial charges) |      | 6,112                            | 9,113          |
| Depreciation on right of use asset                  |      | 30,265                           | -              |
| Depreciation  |      | 8,337                            | 7,068          |
|   |      | <u>88,193</u>                    | <u>88,511</u>  |
| <b>Information technology expenses</b>              |      |                                  |                |
| Software maintenance                                |      | 12,191                           | 9,232          |
| Hardware maintenance                                |      | 1,595                            | 1,386          |
| Depreciation  |      | 6,501                            | 7,080          |
| Network charges                                     |      | 5,288                            | 5,563          |
|   |      | <u>25,575</u>                    | <u>23,261</u>  |
| <b>Other operating expenses</b>                     |      |                                  |                |
| Directors' fees and allowances                      |      | 2,172                            | 1,895          |
| Legal & professional charges                        |      | 1,358                            | 1,174          |
| Travelling & conveyance                             |      | 8,059                            | 6,638          |
| Depreciation  |      | 11,135                           | 10,641         |
| Entertainment                                       |      | 8,344                            | 7,930          |
| Training & development                              |      | 1,905                            | 1,223          |
| Postage & courier charges                           |      | 3,163                            | 2,253          |
| Communication                                       |      | 3,865                            | 3,533          |
| Stationery & printing                               |      | 7,807                            | 8,170          |
| Marketing, advertisement & publicity                |      | 735                              | 700            |
| Auditors remuneration                               | 23.2 | 2,178                            | 1,980          |
| Others  |      | 20,450                           | 19,239         |
|   |      | <u>71,171</u>                    | <u>65,376</u>  |
|   |      | <u>470,061</u>                   | <u>421,995</u> |

|   | 2019<br>-----Rupees in '000----- | 2018           |
|---|----------------------------------|----------------|
| <b>23.1 Total compensation expense</b>    |                                  |                |
| Fees and Allowances etc                   | 143,352                          | 106,351        |
| Managerial Remuneration                   |                                  |                |
| i) Fixed                                  | 4,693                            | 29,390         |
| ii) Variable- cash bonus                  | 17,263                           | 15,278         |
| Contribution to defined contribution Plan | 5,175                            | 4,605          |
| Contribution to defined gratuity fund     | 10,679                           | 8,276          |
| Rent & house maintenance                  | 46,167                           | 36,716         |
| Utilities                                 | 10,089                           | 7,909          |
| Medical                                   | 11,505                           | 9,367          |
| Conveyance                                | 36,199                           | 26,955         |
|   | <u>285,122</u>                   | <u>244,847</u> |



|  | Note | 2019<br>-----Rupees in '000----- | 2018              |
|--|------|----------------------------------|-------------------|
| <b>23.2 Auditors' remuneration</b>                                 |      |                                  |                   |
| Audit fee  |      | 1,980                            | 1,800             |
| Out-of-pocket expenses   |      | 198                              | 180               |
|  |      | <u>2,178</u>                     | <u>1,980</u>      |
| <b>24 PROVISIONS AND WRITE OFFS - NET</b>                          |      |                                  |                   |
| Charge / Reversal of provisions against loans & advances           | 8.3  | 11,665                           | (6,412)           |
| Reversal of provision against customers claims                     |      | -                                | (10,641)          |
| Insurance claims received  |      | (3,000)                          | (5,000)           |
|  |      | <u>8,665</u>                     | <u>(22,053)</u>   |
| <b>25 TAXATION</b>   |      |                                  |                   |
| Current  |      | 55,954                           | 65,669            |
| Prior years  |      | -                                | -                 |
| Deferred   |      | (2,382)                          | 7,051             |
|  |      | <u>53,572</u>                    | <u>72,720</u>     |
| <b>25.1 Relationship between tax expense and accounting profit</b> |      |                                  |                   |
|  |      | 2019                             | 2018              |
|  | %    | Rupees in '000'                  | % Rupees in '000' |
| Profit before taxation   |      | 125,401                          | 172,613           |
| Applicable tax rate / expense                                      | 35%  | 43,890                           | 35% 60,415        |
| Super tax  | 4.6% | 5,739                            | 4% 6,735          |
| Expense not allowed  | 3.1% | 3,943                            | 4% 6,568          |
| Other  | -    | -                                | -1% (998)         |
| Actual tax rate / expense  | 43%  | 53,572                           | 42% 72,720        |
| Total tax charge as per financial statements                       |      | <u>53,572</u>                    | <u>72,720</u>     |
| <b>26 BASIC AND DILUTED EARNINGS PER SHARE</b>                     |      | 2019                             | 2018              |
|  |      | -----Rupees in '000-----         |                   |
| Profit for the year  |      | 71,830                           | 99,893            |
|  |      | <u>2019</u>                      | <u>2018</u>       |
|  |      |                                  | <b>Restated</b>   |
| Weighted average number of ordinary shares (Number)                |      | 102,719,261                      | 102,719,261       |
| Basic and diluted earnings per share (Rupees)                      |      | <u>0.70</u>                      | <u>0.97</u>       |

|                                      | 2019                     | 2018             |
|--------------------------------------|--------------------------|------------------|
|                                      | -----Rupees in '000----- |                  |
| <b>27 CASH AND CASH EQUIVALENTS</b>  |                          |                  |
| Cash and balance with treasury banks | 245,671                  | 495,587          |
| Balance with other banks             | 1,599,630                | 3,425,972        |
|                                      | <u>1,845,301</u>         | <u>3,921,559</u> |

|  | 2019             | 2018       |
|--|------------------|------------|
|  | -----Number----- |            |
| <b>28 STAFF STRENGTH</b>                         |                  |            |
| Permanent  | 214              | 222        |
| On Bank contract                                 | 173              | 168        |
| Bank's own staff strength at the end of the year | <u>387</u>       | <u>390</u> |
| Outsourced                                       | 152              | 149        |
| Total staff strength at the end of the year      | <u>539</u>       | <u>539</u> |

## 29 STAFF RETIREMENT BENEFITS

### 29.1 Gratuity

The Bank contributed Rs. 10,679 thousand ( 2018: Rs. 8,276 thousand ) during the year towards employees gratuity fund.

### 29.2 Provident fund

The Bank contributed Rs. 5,175 thousand ( 2018: Rs. 4,605 thousand ) during the year towards employees contributory provident fund.

## 30 COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

### 30.1 Total compensation expense

| Item  | 2019      |                |           |                          |
|---|-----------|----------------|-----------|--------------------------|
|   | Directors |                | President | Key management personnel |
|   | Chairman  | Non-Executives |           |                          |
| -----Rupees in '000-----                            |           |                |           |                          |
| Fees and Allowances etc.                            |           |                |           |                          |
| Managerial Remuneration                             |           |                |           |                          |
| i) Fixed  | 175       | 1,780          | 3,869     | 14,524                   |
| ii) Variable (bonus)                                | -         | -              | 711       | 1,974                    |
| Contribution to defined contribution provident fund | -         | -              | -         | 545                      |
| Contribution to defined contribution gratuity fund  | -         | -              | 355       | 545                      |
| Rent & house maintenance                            | -         | -              | 1,546     | 5,996                    |
| Utilities   | -         | -              | 176       | 1,332                    |
| Medical   | -         | -              | 110       | 1,332                    |
| Conveyance  | -         | -              | 930       | 2,130                    |
| Vehicle   | -         | -              | -         | 3,532                    |
| Boarding & loading                                  | -         | -              | 85        | -                        |
| Others (mobile charges, TA & DA)                    | -         | 217            | 809       | 1,057                    |
| Total   | 175       | 1,997          | 8,591     | 32,967                   |
| Number of Persons                                   | 1         | 7              | 1         | 9                        |

| Item  | 2018                     |                |           |                          |
|---|--------------------------|----------------|-----------|--------------------------|
|   | Directors                |                | President | Key management personnel |
|   | Chairman                 | Non-Executives |           |                          |
|   | -----Rupees in '000----- |                |           |                          |
| Fees and Allowances etc.                            | -                        | -              | -         | -                        |
| Managerial Remuneration                             |                          |                |           |                          |
| i) Fixed  | 125                      | 1,625          | 4,690     | 20161                    |
| ii) Variable ( Bonus)                               | -                        | -              | 711       | 2,131                    |
| Contribution to defined contribution provident fund | -                        | -              | -         | 413                      |
| Contribution to defined contribution gratuity fund  | -                        | -              | 391       | 454                      |
| Rent & house maintenance                            | -                        | -              | 2,234     | 2,453                    |
| Utilities   | -                        | -              | 214       | 545                      |
| Medical   | -                        | -              | 103       | 545                      |
| Conveyance  | -                        | -              | 742       | 1,280                    |
| Vehicle   | -                        | -              | -         | 952                      |
| Boarding & loading                                  | -                        | -              | 41        | -                        |
| Others (mobile charges, TA                          | -                        | 286            | 284       | 593                      |
| Total   | 125                      | 1,911          | 9,410     | 29,527                   |
| Number of Persons                                   | 1                        | 7              | 1         | 9                        |

**30.2 Remuneration paid to directors for participation in Board and Committee meetings**

| Name of director                 | 2019                             |                           |                       |                    |                   |
|----------------------------------|----------------------------------|---------------------------|-----------------------|--------------------|-------------------|
|                                  | Meeting fees and allowances paid |                           |                       |                    |                   |
|                                  | For board meetings               | For board committees      |                       |                    |                   |
|                                  |                                  | Board executive committee | Board audit committee | Board IT committee | Total amount paid |
|                                  | Rupees in '000'                  |                           |                       |                    |                   |
| 1 Mather Niaz Rana               | 175                              | -                         | -                     | -                  | 175               |
| 2 Abid Awan                      | 125                              | 25                        | -                     | 75                 | 225               |
| 3 Fayaz Ali Abbasi               | 175                              | -                         | 100                   | -                  | 275               |
| 4 Ejaz Hussain Rathore           | 175                              | -                         | 100                   | 75                 | 350               |
| 5 Syed Zahoor ul Hussain Gillani | 25                               | -                         | -                     | -                  | 25                |
| 6 Dr Shehla Waqar                | 50                               | -                         | -                     | 50                 | 100               |
| 7 Fareed Ahmed Tarar             | 200                              | 50                        | 100                   | -                  | 350               |
| 8 Raja Mumtaz Ali                | 100                              | -                         | 75                    | -                  | 175               |
| 9 Naveed Sadiq                   | 175                              | -                         | -                     | -                  | 175               |
| 10 Khalid Rafique                | -                                | -                         | -                     | 55                 | 55                |
| 11 Muhammed Ahsan                | 25                               | 25                        | -                     | -                  | 50                |
| <b>Total amount paid</b>         | <b>1,225</b>                     | <b>100</b>                | <b>375</b>            | <b>255</b>         | <b>1,955</b>      |
| Name of director                 | 2018                             |                           |                       |                    |                   |
|                                  | Meeting fees and allowances paid |                           |                       |                    |                   |
|                                  | For board meetings               | For board committees      |                       |                    |                   |
|                                  |                                  | Board executive committee | Board audit committee | Board IT committee | Total amount paid |
|                                  | Rupees in '000'                  |                           |                       |                    |                   |
| 1 Dr. Ijaz Munir                 | 75                               | -                         | -                     | -                  | 75                |
| 2 Mian Waheed ud din             | 50                               | -                         | -                     | -                  | 50                |
| 3 Fayaz Ali Abbasi               | 100                              | -                         | 100                   | -                  | 200               |
| 4 Fareed Ahmed Tarar             | 125                              | 100                       | 100                   | -                  | 325               |
| 5 Syed Zahoor ul Hussain Gillani | 100                              | -                         | -                     | 75                 | 175               |
| 6 Dr Shehla Waqar                | 25                               | -                         | -                     | -                  | 25                |
| 7 Raja Tariq Masood              | 100                              | 75                        | -                     | 75                 | 250               |
| 8 Abid Awan                      | -                                | 25                        | -                     | 25                 | 50                |
| 9 Ejaz Hussain Rathore           | 75                               | -                         | 75                    | 100                | 250               |
| 10 Raja Mumtaz Ali               | 125                              | -                         | 100                   | -                  | 225               |
| 11 Naveed Sadiq                  | 125                              | -                         | -                     | -                  | 125               |
| <b>Total amount paid</b>         | <b>900</b>                       | <b>200</b>                | <b>375</b>            | <b>275</b>         | <b>1,750</b>      |



### 31 FAIR VALUE MEASUREMENTS

The fair value of quoted securities other than those classified as held to maturity, is based on quoted market price. Quoted securities classified as held to maturity are carried at cost. The fair value of unquoted equity securities, other than investments in associates and subsidiaries, is determined on the basis of the break-up value of these investments as per their latest available audited financial statements.

The fair value of unquoted debt securities, fixed term loans, other assets, other liabilities, fixed term deposits and borrowings cannot be calculated with sufficient reliability due to the absence of a current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments.

#### 31.1 Fair value of financial assets

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

**Level 1:** Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or

**Level 2:** Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

**Level 3:** Fair value measurements using input for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

| 2019   |                          |         |         |         |
|--|--------------------------|---------|---------|---------|
|  | Level 1                  | Level 2 | Level 3 | Total   |
|  | -----Rupees in '000----- |         |         |         |
| <b>On balance sheet financial instruments</b>    |                          |         |         |         |
| <b>Financial assets - measured at fair value</b> |                          |         |         |         |
| Investments                                      |                          |         |         |         |
| Mutual funds                                     | 178,401                  | -       | -       | 178,401 |
|  |                          |         |         |         |
| 2018   |                          |         |         |         |
|  | Level 1                  | Level 2 | Level 3 | Total   |
|  | -----Rupees in '000----- |         |         |         |
| <b>On balance sheet financial instruments</b>    |                          |         |         |         |
| <b>Financial assets - measured at fair value</b> |                          |         |         |         |
| Investments                                      |                          |         |         |         |
| Mutual funds                                     | 175,869                  | -       | -       | 175,869 |

### 32 SEGMENT INFORMATION

#### 32.1 Segment Details with respect to Business Activities

The segment analysis with respect to business activity is as follows:-

| 2019                                   |                          |                    |                        |                 |           |
|--|--------------------------|--------------------|------------------------|-----------------|-----------|
| Profit and loss                        | Retail Banking           | Commercial Banking | Payment and Settlement | Agency Services | Total     |
|  | -----Rupees in '000----- |                    |                        |                 |           |
| Net mark-up/ return/ profit            | 209,486                  | 367,249            | -                      | -               | 576,735   |
| Non mark-up / return / interest income | 84                       | 11,063             | 11,565                 | 4,680           | 27,392    |
| Total income                           | 209,570                  | 378,312            | 11,565                 | 4,680           | 604,127   |
| Segment direct expenses                | (75,420)                 | (388,796)          | (4,162)                | (1,684)         | (470,061) |
| Total expenses                         | (75,420)                 | (388,796)          | (4,162)                | (1,684)         | (470,061) |
| Provisions charged / (reversal)        | 110                      | (8,775)            | -                      | -               | (8,665)   |
| Profit before tax                      | 134,260                  | (19,259)           | 7,403                  | 2,996           | 125,402   |

**Statement of financial position**

|  | Retail Banking   | Commercial Banking | Payment and Settlement | Agency Services | Total             |
|--|------------------|--------------------|------------------------|-----------------|-------------------|
| Rupees in '000                             |                  |                    |                        |                 |                   |
| Cash & bank balances                       | -                | 10,314,178         | -                      | -               | 10,314,178        |
| Investments                                | -                | 178,401            | -                      | -               | 178,401           |
| Advances - performing                      | 1,488,570        | 504,596            | -                      | -               | 1,993,166         |
| - non-performing                           | 69,460           | 146,161            | -                      | -               | 215,621           |
| - provision                                | (97,784)         | (74,175)           | -                      | -               | (171,960)         |
| Operating fixed assets                     | 36,830           | 199,196            | 2,032                  | 822             | 238,881           |
| Deferred tax asset                         | -                | 22,426             | -                      | -               | 22,426            |
| Others                                     | 3,038            | 772,350            | 168                    | 68              | 775,623           |
| <b>Total assets</b>                        | <b>1,500,114</b> | <b>12,063,132</b>  | <b>2,200</b>           | <b>890</b>      | <b>13,566,336</b> |
| Bills payable                              | -                | 21,148             | -                      | -               | 21,148            |
| Deposits and other accounts                | -                | 11,873,535         | -                      | -               | 11,873,535        |
| Lease liability against right of use asset | -                | 122,388            | -                      | -               | 122,388           |
| Others                                     | 11,346           | 310,480            | 368                    | 6               | 322,200           |
| <b>Total liabilities</b>                   | <b>11,346</b>    | <b>12,327,551</b>  | <b>368</b>             | <b>6</b>        | <b>12,339,271</b> |
| Equity                                     | 1,488,768        | (264,420)          | 1,832                  | 884             | 1,227,064         |
| <b>Total Equity and liabilities</b>        | <b>1,500,114</b> | <b>12,063,132</b>  | <b>2,200</b>           | <b>890</b>      | <b>13,566,336</b> |
| <b>Contingencies and commitments</b>       | <b>13,390</b>    | <b>358,931</b>     | <b>9,564</b>           | <b>-</b>        | <b>381,885</b>    |

**Profit and loss**

|  | Retail Banking  | Commercial Banking | Payment and Settlement | Agency Services | Total            |
|--|-----------------|--------------------|------------------------|-----------------|------------------|
| 2018<br>Rupees in '000                 |                 |                    |                        |                 |                  |
| Net mark-up/return/profit              | 215,382         | 335,484            | -                      | -               | 550,866          |
| Non mark-up / return / interest income | -               | 6,808              | 10,648                 | 4,233           | 21,689           |
| <b>Total Income</b>                    | <b>215,382</b>  | <b>342,292</b>     | <b>10,648</b>          | <b>4,233</b>    | <b>572,555</b>   |
| Segment direct expenses                | (88,347)        | (327,013)          | (4,748)                | (1,887)         | (421,995)        |
| Inter segment expense allocation       | -               | -                  | -                      | -               | -                |
| <b>Total expenses</b>                  | <b>(88,347)</b> | <b>(327,013)</b>   | <b>(4,748)</b>         | <b>(1,887)</b>  | <b>(421,995)</b> |
| Provisions charged / (reversal)        | (22,345)        | 44,398             | -                      | -               | 22,053           |
| <b>Profit before tax</b>               | <b>104,690</b>  | <b>59,677</b>      | <b>5,900</b>           | <b>2,346</b>    | <b>172,613</b>   |

**Statement of financial position**

|                                      | Retail Banking   | Commercial Banking | Payment and Settlement | Agency Services | Total             |
|--------------------------------------|------------------|--------------------|------------------------|-----------------|-------------------|
| Rupees in '000                       |                  |                    |                        |                 |                   |
| Cash & bank balances                 | -                | 9,406,659          | -                      | -               | 9,406,659         |
| Investments                          | -                | 175,869            | -                      | -               | 175,869           |
| Advances - performing                | 1,326,088        | 610,455            | -                      | -               | 1,936,543         |
| - non-performing                     | 65,002           | 187,688            | -                      | -               | 252,690           |
| - provision                          | (116,098)        | (44,197)           | -                      | -               | (160,295)         |
| Operating fixed assets               | 27,196           | 100,959            | 1,461                  | 581             | 130,197           |
| Deferred tax asset                   | -                | 20,930             | -                      | -               | 20,930            |
| Others                               | 18,062           | 629,333            | 970                    | 386             | 648,751           |
| <b>Total assets</b>                  | <b>1,320,250</b> | <b>11,087,696</b>  | <b>2,431</b>           | <b>967</b>      | <b>12,411,344</b> |
| Bills payable                        | -                | 19,582             | -                      | -               | 19,582            |
| Deposits and other accounts          | -                | 11,063,203         | -                      | -               | 11,063,203        |
| Others                               | 10,492           | 164,453            | 17                     | 8               | 174,970           |
| <b>Total liabilities</b>             | <b>10,492</b>    | <b>11,247,238</b>  | <b>17</b>              | <b>8</b>        | <b>11,257,755</b> |
| Equity                               | 1,309,758        | (159,542)          | 2,414                  | 959             | 1,153,589         |
| <b>Total Equity and liabilities</b>  | <b>1,320,250</b> | <b>11,087,696</b>  | <b>2,431</b>           | <b>967</b>      | <b>12,411,344</b> |
| <b>Contingencies and Commitments</b> | <b>12,601</b>    | <b>354,600</b>     | <b>-</b>               | <b>-</b>        | <b>367,201</b>    |

### 33 TRUST ACTIVITIES

The Bank is not engaged in any significant trust activities.

### 34 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. The Government of Azad Jammu and Kashmir holds directly and indirectly Bank's entire share capital at the year end, therefore all of its departments are related parties of the Bank. Also the Bank has related party relationships with its directors, key management personnel, entities over which the directors are able to exercise significant influence.

The Banks enters into transactions with related parties in the ordinary course of business and on substantially the same terms as for comparable transactions with person of similar standing. Contributions to and accruals in respect of staff retirement benefits and other benefit plans are made in accordance with the terms of the contribution plan. Remuneration to the executives / officers is determined in accordance with the terms of their appointment.

Details of balances due to / from related parties at the year end and transactions with them during the year are as follows:

|                                      | 2019  |                          | 2018  |                          |
|--------------------------------------|---|--------------------------|---|--------------------------|
|                                      | Government of Azad Jammu & Kashmir and its related department | Key management personnel | Government of Azad Jammu & Kashmir and its related department | Key management personnel |
|                                      | -----Rupees in '000-----                                      |                          |   |                          |
| <b>Advances</b>                      |   |                          |   |                          |
| Opening balance                      | 259,972   | 45,707                   | 305,624   | 43,962                   |
| Addition during the year             | -   | -                        | -   | 9,994                    |
| Repaid during the year               | (48,980)  | (6,531)                  | (45,652)  | (8,249)                  |
| Closing balance                      | 210,992   | 39,176                   | 259,972   | 45,707                   |
| Provision held against advances      | -   | -                        | -   | -                        |
| <b>Other Assets</b>                  |   |                          |   |                          |
| Interest / mark-up accrued           | 1,520   | -                        | 1,874   | -                        |
| <b>Deposits and other accounts</b>   |   |                          |   |                          |
| Opening balance                      | 5,068,975   | 10,840                   | 4,650,389   | 5,915                    |
| Received/Withdrawal during the year  | (526,178)   | (1,539)                  | 418,586   | 4,925                    |
| Closing balance                      | 4,542,797   | 9,301                    | 5,068,975   | 10,840                   |
| <b>Other Liabilities</b>             |   |                          |   |                          |
| Interest / mark-up payable           | 83,561  | 284                      | 36,270  | 93                       |
| <b>Contingencies and Commitments</b> |   |                          |   |                          |
| Unavailed running finance            | 289,008   | -                        | 240,028   | -                        |
| <b>Transactions during the year</b>  |   |                          |   |                          |
| <b>Income</b>                        |   |                          |   |                          |
| Mark-up / return / interest earned   | 20,831  | 2,175                    | 23,954  | 2,409                    |
| <b>Expense</b>                       |   |                          |   |                          |
| Mark-up / return / interest paid     | 139,411   | 241                      | 190,156   | 166                      |



**CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS**

2019                      2018  
-----Rupees in '000-----

**Minimum capital requirement (MCR)**

|                                 |            |            |
|---------------------------------|------------|------------|
| Paid-up capital (net of losses) | 10,000,000 | 10,000,000 |
|---------------------------------|------------|------------|

**Capital adequacy ratio (CAR)**

|   |           |           |
|---|-----------|-----------|
| Eligible common equity tier 1 (CET 1) capital | 1,244,353 | 1,172,523 |
| Eligible additional tier 1 (ADT 1) capital    | -         | -         |
| Total regulatory adjustment applied to CET1   | (17,289)  | (18,935)  |
| Total eligible Tier 1 capital                 | 1,227,063 | 1,153,588 |
| Eligible tier 2 capital                       | 41,867    | 48,092    |
| Total eligible capital (Tier 1 + Tier 2)      | 1,268,930 | 1,201,680 |

**Risk weighted assets (RWAs):**

|                  |           |           |
|------------------|-----------|-----------|
| Credit risk      | 4,930,823 | 4,647,890 |
| Market risk      | 356,802   | 351,738   |
| Operational risk | 1,062,033 | 1,000,989 |
| Total            | 6,349,658 | 6,000,617 |

|   |        |        |
|---|--------|--------|
| Common equity tier 1 capital adequacy ratio | 19.60% | 19.54% |
| Tier 1 capital adequacy ratio               | 19.32% | 19.22% |
| Total capital adequacy ratio                | 19.98% | 20.03% |

**Leverage ratio (LR)**

|                         |           |           |
|-------------------------|-----------|-----------|
| Eligible tier-1 capital | 1,227,063 | 1,153,588 |
| Total exposures         | 2,251,303 | 2,221,586 |
| Leverage ratio          | 55%       | 52%       |

**Liquidity coverage ratio (LCR)**

|                                  |            |           |
|----------------------------------|------------|-----------|
| Total high quality liquid assets | 10,314,178 | 9,406,659 |
| Total net cash outflow           | 2,950,470  | 3,635,102 |
| Liquidity coverage ratio         | 350%       | 259%      |

**Net stable funding ratio (NSFR)**

|                                |            |           |
|--------------------------------|------------|-----------|
| Total available stable funding | 10,658,463 | 9,979,049 |
| Total required stable funding  | 6,585,866  | 5,408,918 |
| Net stable funding ratio       | 162%       | 184%      |

## 36 RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks, including the credit and interest rate risk associated with various financial assets and liabilities respectively.

The Bank finances its operations through equity, deposits and management of working capital with a view to maintaining a reasonable mix between the various sources of finance to minimize risk.

Taken as a whole, risk arising from the Bank's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments. Bank regularly reviews and updates policy manuals and procedures in accordance with domestic regulatory environment and international standards.

### 36.1 Credit Risk

Credit risk arises from the potential that an obligor is either unwilling to perform on an obligation or its ability is impaired resulting in economic loss to the Bank. The Bank takes necessary measures to control such risk by monitoring credit exposures, limiting transactions with specific counter parties with increased likelihood of default and continually assessing the creditworthiness of counter parties.

#### 36.1.1 Investment in debt securities

##### Credit risk by industry sector

|                   | Gross investments         |        | Non-performing |          | Provision held |          |
|-------------------|---------------------------|--------|----------------|----------|----------------|----------|
|                   | 2019                      | 2018   | 2019           | 2018     | 2019           | 2018     |
|                   | ----- Rupees in '000----- |        |                |          |                |          |
| Government bonds  | -                         | -      | -              | -        | -              | -        |
| Construction- TFC | 49,940                    | 49,940 | (49,940)       | (49,940) | (49,940)       | (49,940) |
|                   | 49,940                    | 49,940 | (49,940)       | (49,940) | (49,940)       | (49,940) |

##### Credit risk by public / private sector

|         | Gross advances            |        | Non-performing advances |          | Provision held |          |
|---------|---------------------------|--------|-------------------------|----------|----------------|----------|
|         | 2019                      | 2018   | 2019                    | 2018     | 2019           | 2018     |
|         | ----- Rupees in '000----- |        |                         |          |                |          |
| Public  | -                         | -      | -                       | -        | -              | -        |
| Private | 49,940                    | 49,940 | (49,940)                | (49,940) | (49,940)       | (49,940) |
|         | 49,940                    | 49,940 | (49,940)                | (49,940) | (49,940)       | (49,940) |

#### 36.1.2 Advances

##### Credit risk by industry sector

|                                      | Gross advances            |           | Non-performing advances |         | Provision held |         |
|--------------------------------------|---------------------------|-----------|-------------------------|---------|----------------|---------|
|                                      | 2019                      | 2018      | 2019                    | 2018    | 2019           | 2018    |
|                                      | ----- Rupees in '000----- |           |                         |         |                |         |
| Agriculture, Forestry, Hunting and F | 98,217                    | 148,509   | 70,249                  | 81,131  | 38,008         | 26,041  |
| Wholesale and Retail Trade           | 383,288                   | 370,519   | 92,778                  | 106,557 | 46,553         | 48,154  |
| Individuals                          | 1,516,289                 | 1,410,233 | 52,593                  | 65,002  | 41,375         | 38,008  |
| Others                               | 210,992                   | 259,972   | -                       | -       | -              | -       |
|                                      | 2,208,786                 | 2,189,233 | 215,620                 | 252,690 | 125,936        | 112,203 |

##### Credit risk by public / private sector

|                    | Gross investments         |           | Non-performing investments |         | Provision held |         |
|--------------------|---------------------------|-----------|----------------------------|---------|----------------|---------|
|                    | 2019                      | 2018      | 2019                       | 2018    | 2019           | 2018    |
|                    | ----- Rupees in '000----- |           |                            |         |                |         |
| Public/ Government | 210,992                   | 259,972   | -                          | -       | -              | -       |
| Private            | 1,997,794                 | 1,929,261 | 215,620                    | 252,690 | 130,093        | 112,203 |
|                    | 2,208,786                 | 2,189,233 | 215,620                    | 252,690 | 130,093        | 112,203 |

### 36.1.3 Contingencies and Commitments

#### Credit risk by industry sector

|                            | 2019                  | 2018           |
|----------------------------|-----------------------|----------------|
|                            | -----Rupees '000----- |                |
| Wholesale and Retail Trade | 53,137                | 45,451         |
| Individuals                | 39,740                | 29,380         |
| Others                     | 289,008               | 240,028        |
|                            | <u>381,885</u>        | <u>314,859</u> |

#### Credit risk by public / private sector

|                    |                |                |
|--------------------|----------------|----------------|
| Public/ Government | 289,008        | 240,028        |
| Private            | 92,877         | 74,831         |
|                    | <u>381,885</u> | <u>314,859</u> |

### 36.1.4 Concentration of Advances

The bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs 437,066 thousand (2018: Rs. 436,309 thousand) are as following:

|                | 2019                     | 2018           |
|----------------|--------------------------|----------------|
|                | -----Rupees in '000----- |                |
| Funded         | 400,990                  | 419,530        |
| Non funded     | 36,076                   | 16,779         |
| Total exposure | <u>437,066</u>           | <u>436,309</u> |

The sanctioned limits against these top 10 exposures aggregated to Rs 695,500 thousand (2018: Rs. 667,500 thousand)

#### Total funded classified therein

|             | 2019                      |                | 2018          |                |
|-------------|---------------------------|----------------|---------------|----------------|
|             | Amount                    | Provision held | Amount        | Provision held |
|             | ----- Rupees in '000----- |                |               |                |
| Substandard | -                         | -              | -             | -              |
| Doubtful    | -                         | -              | -             | -              |
| Loss        | 52,448                    | 10,442         | 52,448        | 6,408          |
| Total       | <u>52,448</u>             | <u>10,442</u>  | <u>52,448</u> | <u>6,408</u>   |

### 36.1.5 Advances - Province/Region-wise Disbursement & Utilization

Total amount of disbursement and utilization is in Azad Jammu and Kashmir of Rs. 1,443,654 thousands (2018: 371,723 thousands)

### 36.2 Market Risk

Market Risk is the risk of loss in earnings and capital due to adverse changes in interest rates, foreign exchange rates, equity prices and market conditions. Thus market risk can be further described into Interest Rate Risk, Foreign Exchange Risk and Equity Position Risk.



### 36.2.1 Balance sheet split by trading and banking books

|                                    | 2019                      |                |                   | 2018              |                |                   |
|------------------------------------|---------------------------|----------------|-------------------|-------------------|----------------|-------------------|
|                                    | Banking book              | Trading book   | Total             | Banking book      | Trading book   | Total             |
|                                    | ----- Rupees in '000----- |                |                   |                   |                |                   |
| Cash and balances with treasury ba | 3,005,671                 | -              | 3,005,671         | 2,305,587         | -              | 2,305,587         |
| Balances with other banks          | 7,308,507                 | -              | 7,308,507         | 7,101,072         | -              | 7,101,072         |
| Investments                        | -                         | 178,401        | 178,401           | -                 | 175,869        | 175,869           |
| Advances                           | 2,036,826                 | -              | 2,036,826         | 2,028,938         | -              | 2,028,938         |
| Fixed assets                       | 238,881                   | -              | 238,881           | 130,195           | -              | 130,195           |
| Deferred tax assets                | 22,426                    | -              | 22,426            | 20,930            | -              | 20,930            |
| Other assets                       | 775,623                   | -              | 775,623           | 648,751           | -              | 648,751           |
|                                    | <b>13,387,934</b>         | <b>178,401</b> | <b>13,566,335</b> | <b>12,235,473</b> | <b>175,869</b> | <b>12,411,342</b> |

### 36.2.2 Foreign exchange risk

Foreign exchange risk / currency risk is defined as risk of loss to earnings and capital arising from adverse movements in currency exchange rates. The Bank is not exposed to the foreign exchange risk since all the Bank's assets and liabilities are held in the local currency i.e. Pak Rupees.

### 36.2.3 Equity position Risk

It is the risk of loss to earnings or capital as a result from unfavorable fluctuations in prices of securities in which the Bank takes long and / or short positions, in its trading book.

ALCO is responsible for making investment decisions in the capital market and setting limits that are a component of the risk management framework. Portfolio limits are assigned by the ALCO to guard against concentration risk and these limits are reviewed and revised periodically. Limit monitoring is done on daily basis. Limit breaches if any are promptly reported to ALCO with proper reason and justification.

|   | 2019                      |              | 2018         |              |
|---|---------------------------|--------------|--------------|--------------|
|   | Banking book              | Trading book | Banking book | Trading book |
|   | ----- Rupees in '000----- |              |              |              |
| Impact of 5% change in equity prices on |                           |              |              |              |
| - Other comprehensive income            | -                         | 8,920        | -            | 8,793        |

### 36.2.4 Yield / Interest Rate Risk in the Banking Book (IRRBB)-Basel II Specific

Yield curve risk is the risk that a financial instrument will suffer either a decline because future changes in prevailing interest rates impact assets more or less than they impact liabilities. Risk is addressed by ALCO that reviews the interest rate dynamics at regular intervals and decides re-pricing of assets and liabilities to ensure that the spread of the Bank remains at an acceptable level.

Yield/ Interest rate sensitivity position for on-balance sheet instruments is based on the earlier of contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date. This also refers to the non-trading market risk. Apart from the gap analysis between the market rate sensitive assets and liabilities as per the table given below:-

- The nature of IRRBB and key assumptions, including assumptions regarding loan repayments and behavior of non-maturity deposits, and frequency of IRRBB measurements
- The increase (decline) in earnings or economic value ( or any other relevant measures used by management) for upward and downward shocks according to management's method for measuring IRRBB, broken down by currencies (if any, and then translated into Rupees)

|  | 2019                     |              | 2018         |              |
|--|--------------------------|--------------|--------------|--------------|
|  | Banking book             | Trading book | Banking book | Trading book |
|  | -----Rupees in '000----- |              |              |              |
| Impact of 1% change in interest rates on |                          |              |              |              |
| - Profit and loss account                | (5,525)                  | -            | (4,302)      | -            |
| - Other comprehensive income             |                          | (1,784)      | -            | (1,759)      |

### 36.2.5 Mismatch of Interest Rate Sensitive Assets and Liabilities

Yield / interest rate sensitivity position for on-balance sheet instruments is based on the earlier of contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.

| On-balance sheet financial instruments                           | Effective Yield/ Interest rate | Total      | 2019                            |             |             |             |         |           |           |           |           | Non-interest bearing financial instruments |
|--|--------------------------------|------------|---------------------------------|-------------|-------------|-------------|---------|-----------|-----------|-----------|-----------|--|
|  |                                |            | Exposed to Yield/ Interest risk |             |             |             |         |           |           |           |           |  |
|  |                                |            | Upto 1                          | Over 1      | Over 3      | Over 6      | Over 1  | Over 2    | Over 3    | Over 5    | Above     |  |
|  |                                |            | Month                           | to 3        | to 6        | Months to 1 | to 2    | to 3      | to 5      | to 10     |           |  |
| Rupees in '000   |                                |            |                                 |             |             |             |         |           |           |           |           |  |
| <b>Assets</b>  |                                |            |                                 |             |             |             |         |           |           |           |           |  |
| Cash and balances with treasury banks                            | 9.10%                          | 3,005,671  | 124,812                         | -           | 250,000     | 2,510,000   | -       | -         | -         | -         | -         | 120,859                                    |
| Balances with other banks  | 10.26%                         | 7,308,507  | 741,454                         | 792,785     | 1,666,090   | 2,828,118   | 350,000 | -         | 300,000   | 500,000   | -         | 130,061                                    |
| Investments  | 4.61%                          | 178,401    | -                               | -           | -           | -           | -       | -         | -         | -         | -         | 178,401                                    |
| Advances   | 13.0%                          | 2,036,826  | 448,509                         | 52,272      | 105,911     | 255,042     | 183,925 | 287,308   | 689,878   | 13,981    | -         | -  |
| Other assets   |                                | 774,369    | -                               | -           | -           | -           | -       | -         | -         | -         | -         | 774,369                                    |
|  |                                | 13,303,774 | 1,314,775                       | 845,057     | 2,022,001   | 5,593,160   | 533,925 | 287,308   | 989,878   | 513,981   | -         | 1,203,690                                  |
| <b>Liabilities</b>   |                                |            |                                 |             |             |             |         |           |           |           |           |  |
| Bills payable  |                                | 21,148     | -                               | 21,148      | -           | -           | -       | -         | -         | -         | -         | 21,148                                     |
| Deposits and other accounts liability against right of use asset | 6.25%                          | 11,873,535 | 1,511,174                       | 2,606,039   | 3,291,638   | 1,577,765   | 79,669  | 84,200    | 41,254    | 500       | -         | 2,681,296                                  |
| Other liabilities  |                                | 122,388    | -                               | -           | -           | -           | -       | -         | 122,388   | -         | -         | -  |
|  |                                | 322,201    | -                               | -           | -           | -           | -       | -         | -         | -         | -         | 322,201                                    |
|  |                                | 12,339,272 | 1,511,174                       | 2,627,187   | 3,291,638   | 1,577,765   | 79,669  | 84,200    | 163,642   | 500       | -         | 3,024,645                                  |
| On-balance sheet gap   |                                | 964,501    | (196,399)                       | (1,782,130) | (1,269,637) | 4,015,395   | 454,256 | 203,108   | 826,236   | 513,481   | -         | (1,820,956)                                |
| Off-balance sheet financial instruments                          |                                |            |                                 |             |             |             |         |           |           |           |           |  |
| Commitments to extend credit                                     |                                | 336,245    | 336,245                         | -           | -           | -           | -       | -         | -         | -         | -         | -  |
| Off-balance sheet gap  |                                | 336,245    | 336,245                         | -           | -           | -           | -       | -         | -         | -         | -         | -  |
| Total Yield/Interest Risk Sensitivity Gap                        |                                |            | (532,644)                       | (1,782,130) | (1,269,637) | 4,015,395   | 454,256 | 203,108   | 826,236   | 513,481   | -         | (1,820,956)                                |
| Cumulative Yield/Interest Risk Sensitivity Gap                   |                                |            | (532,644)                       | (2,314,775) | (3,584,412) | 430,983     | 885,239 | 1,088,347 | 1,914,583 | 2,428,064 | 2,428,064 | (1,820,956)                                |

|  |        | 2018                            |                          |                          |                               |                         |                         |                         |                          |                   |           | Non-interest<br>bearing financial<br>instruments |
|--|--------|---------------------------------|--------------------------|--------------------------|-------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|-------------------|-----------|--|
| Effective<br>Yield/<br>Interest<br>rate        | Total  | Exposed to Yield/ Interest risk |                          |                          |                               |                         |                         |                         |                          |                   |           |  |
|  |        | Upto 1<br>Month                 | Over 1<br>to 3<br>Months | Over 3<br>to 6<br>Months | Over 6<br>Months to 1<br>Year | Over 1<br>to 2<br>Years | Over 2<br>to 3<br>Years | Over 3<br>to 5<br>Years | Over 5<br>to 10<br>Years | Above<br>10 Years |           |  |
|  |        |                                 |                          |                          |                               |                         |                         |                         |                          |                   |           |  |
| Rupees in '000                                 |        |                                 |                          |                          |                               |                         |                         |                         |                          |                   |           |  |
| On-balance sheet financial instruments         |        |                                 |                          |                          |                               |                         |                         |                         |                          |                   |           |  |
| <u>Assets</u>                                  |        |                                 |                          |                          |                               |                         |                         |                         |                          |                   |           |  |
| Cash and balances with treasury b              | 6.59%  | 2,305,587                       | 2,186,967                | -                        | -                             | -                       | -                       | -                       | -                        | -                 | -         | 118,620  |
| Balances with other banks                      | 7.44%  | 7,101,072                       | 747,412                  | 2,672,421                | 1,929,270                     | 1,051,273               | -                       | 50,000                  | 300,000                  | 300,000           | -         | 50,696   |
| Investments                                    | 6.13%  | 175,869                         | -                        | -                        | -                             | -                       | -                       | -                       | -                        | -                 | -         | 175,869  |
| Advances                                       | 13.51% | 2,028,938                       | 479,081                  | 40,305                   | 37,446                        | 289,812                 | 442,992                 | 316,372                 | 420,652                  | 2,278             | -         | -  |
| Other assets                                   |        | 633,948                         | -                        | -                        | -                             | -                       | -                       | -                       | -                        | -                 | -         | 633,948  |
|  |        | 12,245,414                      | 3,413,460                | 2,712,726                | 1,966,716                     | 1,341,085               | 442,992                 | 366,372                 | 720,652                  | 302,278           | -         | 979,133  |
| <u>Liabilities</u>                             |        |                                 |                          |                          |                               |                         |                         |                         |                          |                   |           |  |
| Bills payable                                  |        | 19,582                          | -                        | -                        | -                             | -                       | -                       | -                       | -                        | -                 | -         | 19,582   |
| Deposits and other accounts                    | 3.69%  | 11,063,203                      | 1,839,320                | 2,322,431                | 2,217,431                     | 1,865,598               | 137,127                 | -                       | -                        | -                 | -         | 2,681,296  |
| Other liabilities                              |        | 174,969                         | -                        | -                        | -                             | -                       | -                       | -                       | -                        | -                 | -         | 174,969  |
|  |        | 11,257,754                      | 1,839,320                | 2,322,431                | 2,217,431                     | 1,865,598               | 137,127                 | -                       | -                        | -                 | -         | 2,875,847  |
| On-balance sheet gap                           |        | 987,660                         | 1,574,140                | 390,295                  | (250,715)                     | (524,513)               | 305,865                 | 366,372                 | 720,652                  | 302,278           | -         | (1,896,714)                                      |
| Off-balance sheet financial instruments        |        |                                 |                          |                          |                               |                         |                         |                         |                          |                   |           |  |
| Commitments to extend credit                   |        | 298,080                         | 298,080                  | -                        | -                             | -                       | -                       | -                       | -                        | -                 | -         | -  |
| Total Yield/Interest Risk Sensitivity Gap      |        |                                 | 1,276,060                | 390,295                  | (250,715)                     | (524,513)               | 305,865                 | 366,372                 | 720,652                  | 302,278           | -         | (1,896,714)                                      |
| Cumulative Yield/Interest Risk Sensitivity Gap |        |                                 | 1,276,060                | 1,666,355                | 1,415,640                     | 891,126                 | 1,196,991               | 1,563,363               | 2,284,015                | 2,586,293         | 2,586,293 | (1,896,714)                                      |

Yield Risk is the risk of decline in earnings due to adverse movement of the yield curve. Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest

### 36.2.6 Reconciliation of assets and liabilities exposed to yield / interest rate risk with total assets and liabilities

|                                | 2019                     | 2018       |
|--------------------------------|--------------------------|------------|
|                                | -----Rupees in '000----- |            |
| Reconciliation of total assets |                          |            |
| Total financial assets         | 13,303,774               | 12,245,414 |
| Add: Non financial assets      |                          |            |
| Operating fixed assets         | 238,881                  | 130,195    |
| Other assets                   | 1,254                    | 14,803     |
| Deferred tax asset             | 22,426                   | 20,930     |
|                                | 262,561                  | 165,928    |
| Balance as per balance sheet   | 13,566,335               | 12,411,342 |

|  | 2019                     | 2018       |
|--|--------------------------|------------|
|  | -----Rupees in '000----- |            |
| <b>Reconciliation of total liabilities</b> |                          |            |
| financial                                  | 12,339,272               | 11,257,754 |
| Add: Non financial liabilities             |                          |            |
| Deferred tax liabilities                   | -                        | -          |
| Deferred govt. grant                       | -                        | -          |
|  | -                        | -          |
| Balance as per balance sheet               | 12,339,272               | 11,257,754 |

### 36.3 Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events

The Bank's operational risk management framework, as laid down in the operational risk policy, duly approved by BOD, is flexible enough to implement in stages and permits the overall risk management approach to evolve in the light of organizational learning and the future needs of the Bank. Operational loss events are reviewed and appropriate corrective actions taken on an ongoing basis, including measures to improve control procedures with respect to design and operative effectiveness.



### 36.3.1 Operational Risk-Disclosures Basel II Specific

The banks / DFIs are required to make disclosure of reasons for using the approaches to assess the capital charge for operational risk. The details of losses arising from the perspective of operational risk definition should also be indicated along with the measures taken to improve the processes.

### 36.4 Liquidity Risk

Liquidity Risk is the potential for loss to an institution arising from either its inability to meet its obligations or to fund increase in assets as they fall due without incurring unacceptable cost or losses.

**36.4.1 Maturities of Assets and Liabilities - based on contractual maturity of the assets and liabilities of the Bank**

[illegible]

[illegible]

#### 36.4.2 Maturities of assets and liabilities - based on expected maturities of the assets and liabilities of the Bank

|  | 2019         |                    |                    |                         |                   |                   |                   |                    |                |
|--|--------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|
| Total                                      | Upto 1 Month | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years |
| <b>Assets</b>                              |              |                    |                    |                         |                   |                   |                   |                    |                |
| Cash and balances with treasury banks      | 3,005,671    | 245,671            | -                  | 250,000                 | 2,510,000         | -                 | -                 | -                  | -              |
| Balances with other banks                  | 7,308,507    | 773,969            | 825,300            | 1,698,605               | 2,860,633         | 350,000           | -                 | 300,000            | 500,000        |
| Investments                                | 178,401      | -                  | -                  | -                       | 178,401           | -                 | -                 | -                  | -              |
| Advances                                   | 2,036,826    | 448,509            | 52,272             | 105,911                 | 255,042           | 183,925           | 287,308           | 689,878            | 13,981         |
| Fixed assets                               | 238,881      | 1,030              | 2,060              | 5,052                   | 8,240             | 16,481            | 20,601            | 132,063            | 12,954         |
| Deferred tax assets                        | 22,426       | -                  | -                  | -                       | 22,426            | -                 | -                 | -                  | -              |
| Other assets                               | 775,623      | 204,394            | 43,175             | 79,286                  | 195,597           | 2,038             | -                 | 227,845            | 23,288         |
|  | 13,566,335   | 1,673,573          | 922,807            | 2,138,854               | 6,030,339         | 552,444           | 307,909           | 1,349,786          | 550,223        |
|  |              |                    |                    |                         |                   |                   |                   |                    | 40,400         |
| <b>Liabilities</b>                         |              |                    |                    |                         |                   |                   |                   |                    |                |
| Bills payable                              | 21,148       | -                  | 21,148             | -                       | -                 | -                 | -                 | -                  | -              |
| Deposits and other accounts                | 11,873,535   | 2,181,498          | 3,276,363          | 3,961,962               | 2,248,089         | 79,669            | 84,200            | 41,254             | 500            |
| Lease liability against right of use asset | 122,388      |                    |                    |                         |                   |                   |                   | 122,388            |                |
| Other liabilities                          | 322,201      | 201,181            | 44,448             | 15,517                  | 20,254            | -                 | -                 | -                  | -              |
|  | 12,339,272   | 2,382,679          | 3,341,959          | 3,977,479               | 2,268,343         | 79,669            | 84,200            | 163,642            | 500            |
|  |              |                    |                    |                         |                   |                   |                   |                    | 40,800         |
| <b>Net assets</b>                          | 1,227,063    | (709,106)          | (2,419,152)        | (1,838,625)             | 3,761,996         | 472,775           | 223,709           | 1,186,144          | 549,723        |
|  |              |                    |                    |                         |                   |                   |                   |                    | (400)          |
| Share capital                              | 1,027,192    |                    |                    |                         |                   |                   |                   |                    |                |
| Reserves                                   | -            |                    |                    |                         |                   |                   |                   |                    |                |
| Unappropriated profit                      | 217,161      |                    |                    |                         |                   |                   |                   |                    |                |
| Deficit on revaluation of assets           | (17,289)     |                    |                    |                         |                   |                   |                   |                    |                |
|  | 1,227,063    |                    |                    |                         |                   |                   |                   |                    |                |

[illegible]



### 37 EVENTS AFTER THE REPORTING DATE

37.1 The Board of Directors in its meeting held on May 12, 2020 have announced a bonus issue/cash dividend of 10% percent (2018: bonus issue at the rate of 10% ). The appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2019 do not include the effect of the appropriation which will be accounted for in the financial statements for the year ending December 31, 2020.

37.2


The management is closely watching developments related to Covid-19 / Corona Virus and evaluating the extent to which this may affect Bank's operations in the short terms and in long term. With high level of uncertainty surrounding the situation and potential additional initiatives by authorities and customers, it is difficult to predict the financial impact that said situation may have on the Bank, if any. To date, there is no impairment to the assets of the Bank, and no material financial difficulty has been faced. The Bank has closed first quarter of 2020 in profit. The management believes that Bank will be able to address the challenges posed by Covid-19 through observing the code of conduct announced by the health authorities, increased focus on customers, proactive cost control measures and shareholders support, where required. The management further believes that no adjustments or provisions in the Financial Statements for the year ended December 31, 2019 are required due to Covid-19 phenomena. Based on this and the Bank's performance to date, management concludes that going concern assumption of the Bank is appropriate.

### 38 GENERAL

Figures have been rounded off to the nearest thousand rupees, unless otherwise specified.

### 39 DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Bank on May 12, 2020



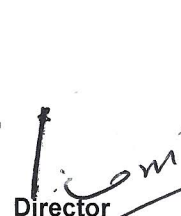
President



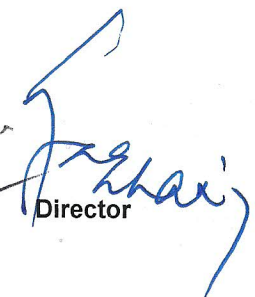
Chief Financial Officer



Director



Director



Director